N0N-CONFIDENTIAL

Borough of Tamworth

19 February 2016

Dear Councillor

You are hereby summoned to attend a **meeting of the Council of this Borough** to be held on **TUESDAY, 23RD FEBRUARY, 2016** at 6.00 pm in the **COUNCIL CHAMBER - MARMION HOUSE**, for the transaction of the following business:-

AGENDA

NON CONFIDENTIAL

6 Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2016/17 (Pages 1 - 122)

Yours faithfully

CHIEF EXECUTIVE

People who have a disability and who would like to attend the meeting should contact Democratic Services on 01827 709264 or e-mail committees@tamworth.gov.uk preferably 24 hours prior to the meeting. We can then endeavour to ensure that any particular requirements you may have are catered for.

Marmion House
Lichfield Street
Tamworth

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COUNCIL

23th February 2016

Report of the Leader of the Council

CORPORATE VISION, PRIORITIES PLAN, BUDGET & MEDIUM TERM FINANCIAL STRATEGY 2016/17

Purpose

This is a key decision as it affects two or more Wards and involves expenditure over £100k.

- To approve the **Vision Statement, Priority Themes, Corporate Priorities and Outcomes** and their inclusion in the **Corporate Plan and Support Service Plan (attached at Appendix A)**.

- To approve the recommended package of budget proposals **(attached at Appendix B)** to enable the Council to agree the:

    - General Fund (GF) Revenue Budget and Council Tax for 2016/17;
    - Housing Revenue Account (HRA) Budget for 2016/17;
    - 3 Year General Fund Capital Programme (2016/19);
    - 5 Year HRA Capital Programme (2016/21);
    - 3 Year General Fund Medium Term Financial Strategy (MTFS) (2016/19); and
    - 5 Year HRA Medium Term Financial Strategy (MTFS) (2016/21).

- To comply with the requirement of the Council's Treasury Management Policy in reporting to Council the proposed strategy for the forthcoming year and the Local Government Act 2003 with the reporting of the Prudential Indicators **(attached at Appendix N)**.

Recommendations

That Council approve:

1. **the Vision Statement, Priority Themes, Corporate Priorities and Outcomes and their inclusion in the Corporate Plan and Support Service Plan (Appendix A);**
2. **the proposed revisions to Service Revenue Budgets (Policy Changes) (Appendix C);**
3. **the sum of £81,896 be applied from Council Tax Collection Fund surpluses in reducing the Council Tax demand in 2016/17 (Appendix E);**
4. **the sum of £560,025 be applied to Business Rates Collection Fund deficits in 2016/17 (Appendix E);**
5. **that on 26th November 2015, the Cabinet calculated the Council Tax Base 2016/17 for the whole Council area as 20,904 [Item T in the formula in Section 31B(3) of the Local Government Finance Act 1992, as amended (the "Act")];**
6. **that the Council Tax requirement for the Council's own purposes for 2016/17 is £3,381,222 (Appendix E);**
7. **the following amounts as calculated for the year 2016/17 in accordance with Sections 31 to 36 of the Act:**
   a. **£55,054,127 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act (Outgoings excluding internal GF Recharges);**
   b. **£51,672,905 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act (Income excluding internal GF Recharges);**
   c. **£3,381,222 being the amount by which the aggregate at 6(a) above exceeds the aggregate at 6(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year (Item R in the formula in Section 31A(4) of the Act);**
   d. **£161.75 being the amount at 6(c) above (Item R), all divided by Item T (at 4 above), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year;**
8. **the Council Tax level for the Borough Council for 2016/17 of £161.75 (an increase of £3.15 (1.99%) on the 2016/17 level of £158.60) at Band D;**
9. **an aggregate Council Tax (comprising the respective demands of the Borough Council, Staffordshire County Council, Office of the Police and Crime Commissioner Staffordshire and Stoke-on-Trent and Staffordshire Fire and Rescue Authority) of £1,498.34 at Band D for 2016/17 be noted (Appendix H);**
10. **the Council Tax levels at each band for 2016/17 (Appendix H);**
11. **the sum of £1,724,806 be transferred from General Fund Revenue Balances in 2016/17 (Appendix E);**

12. **the Summary General Fund Revenue Budget for 2016/17 (Appendix E);**
13. **the Provisional Budgets for 2017/18 to 2018/19, summarised at Appendix G, as the basis for future planning;**
14. **acceptance of the proposed 4 year grant settlement;**
15. **the minimum level for balances of £500k to be held for each of the General Fund, Housing Revenue Account, General Capital Fund and Housing Capital Fund;**
16. **Cabinet be authorised to release funding from the General Contingency budget and that the release of funding for Specific Contingency items be delegated to the Corporate Management Team in consultation with the Leader of the Council;**
17. **the proposed HRA Expenditure level of £14,884,180 for 2016/17 (Appendix D);**
18. **rents for Council House Tenants in General Accommodation for 2016/17 be reduced by an average of £0.88 per week (1%) to £87.38 (2015/16 £88.26), over a 48 week rent year;**
19. **rents for Council House Tenants in Supported Accommodation for 2016/17 be frozen at 2015/16 levels;**
20. **rents for Council House Tenants due for 52 weeks in 2016/17 be collected over 48 weeks;**
21. **the HRA deficit of £368,100 be financed through a transfer from Housing Revenue Account Balances in 2016/17 (Appendix D);**
22. **the proposed 3 year General Fund Capital Programme of £8.014m, as detailed in Appendix I to the report and where it may be more cost effective for purchases to be made before 31st March 2016 – that the spend be brought forward together with the associated budget;**
23. **the proposed 5 year Housing Capital Programme of £52.734m, as detailed in Appendix J to the report;**
24. **to delegate authority to Cabinet to approve/add new capital schemes to the capital programme where grant funding is received or there is no net additional cost to the Council;**
25. **the Treasury Management Strategy Statement, the Treasury Management Policy Statement, Minimum Revenue Provision Strategy and Annual Investment Statement 2016/17 (as detailed at Appendix N);**
26. **the Prudential and Treasury Indicators and Limits for 2016/17 to 2018/19 contained within Appendix N;**
27. **the adoption of the Treasury Management Practices contained within ANNEX 7; and**
28. **the detailed criteria of the Investment Strategy 2016/17 contained in the Treasury Management Strategy within ANNEX 3.**

Executive Summary

As a relatively small and primarily urban local authority, Tamworth Borough Council has planned and managed its journey through the recession and austerity period with considerable credit to date.

The budget setting process has faced significant constraints in Government funding in recent years - over 40% in real terms since 2010 - and the last 12 months have been as challenging as previous years if not more so. The recent announcements in the Summer Budget and Autumn Statement confirm that austerity measures are to continue and would suggest that the key challenges that the Council is currently addressing are likely to become greater.

There also remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation arising from the Business Rates Retention System, changes in Support for Council Tax and Technical Reforms to Council Tax - as well as other changes arising from the Government's Welfare Reform Agenda.

Accurate forecasting, strong leadership and an innovative, risk aware approach have resulted in the organisation being able, in the main, to sustain a full suite of essential services albeit not without implications for the public, local politicians and the entire workforce.

Significantly, this is as much a testament to the skills and commitment of our workforce and our partners' collaboration as it is to the actions and decisions of the Joint Executive Management Team. This period, considered one of the most challenging in post war times, coincided with the Council recording one of its most successful periods of achievement in terms of Customer Satisfaction; measured performance; project delivery and financial management.

What makes these achievements 'special' is that they were delivered in parallel with the largest and most complex **Transformation programme** which in itself, resulted in multi-million pound efficiencies.

Efficiency Statement - Sustainability Strategy

In an attempt to provide a clear 'route map' for the transition from surviving to thriving, the Council has designed and adopted a series of strategic plans, policies and processes. Cabinet, on 22nd August 2013, endorsed the overarching document '**Planning for a Sustainable Future**' as the strategy for meeting the challenges forecast for the Council's Medium Term Financial Strategy (MTFS) which, through the achievement of targets and outcomes associated with the work streams, enabled the organisation to generate significant efficiencies without there being any large scale impact upon the delivery of essential services.

The **Sustainability Strategy** delivered more than just 'big ticket' efficiencies detailed below, it brought about changes to working models, cultures and processes – **Agile Working; Demand Management; Joint Working; Shared Services; Locality Delivery/ Commissioning** all contributed to our journey.

This was achieved through: "**strong and clear leadership, political support, financial planning and the resilience, passion and professionalism of staff**" (Statement drawn from the 2014 LGA Peer review).

The Council's External Auditors (Grant Thornton) also identified within their Annual Audit Letter for 2014/15, dated October 2015:

"On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015."

SUSTAINABILITY STRATEGY

HEADLINE OUTCOMES (OVER 3 YEARS)	**£'000**
• Review of Corporate Management Team	**£338**
• Review of Support Services/Options Appraisal	**£180**
• Voluntary Redundancy/Staff Reduction exercise	**£2,000**
• Design & implementation of Joint Waste Management Arrangement	**£1,500**
• Revenue savings arising from Leisure Futures * **Excluding capital receipts**	**£1,000**
More recently and as part of a planned response to Governments continued austerity measures, further savings consequent of the **Sustainability Strategy Work Streams** have been identified. These include:	
• Adoption of Agile Working (including potential income from letting vacant accommodation with Marmion House)	**£488**
• Revisions to working practices (Wardens/CCTV)	**£456**
• Revisions to organic waste collection and disposal arrangements	**£421**
• Proactive management and collection of Business Rates	**£728**
• Recharges for services delivered for HRA Account	**£501**
• Review of Senior Management arrangements	**£400**

All that said, the plans, processes and strategies that have guided the organisation to date required a review and refresh if elected members are to respond to the feedback from local people and shift the trajectory from sustainability towards sustained viability.

CORPORATE REVIEW OF STRATEGIC FRAMEWORK

This meant a fundamental review of the **Corporate Strategic Framework** and Cabinet at their meeting on 14th January 2016 endorsed the revised Strategic Framework including the Vision, Priority Themes, Corporate Objectives and Outcomes (**attached at Appendix A**) for inclusion in the emerging Corporate Plan; Corporate Support Plan and Medium Term Financial Strategy for Council approval.

The adoption of 'Demand Management' as the primary operating model and the targeting of resources via locality based commissioning and delivery has enabled greater effectiveness in service delivery as evidenced by customer satisfaction, award winning services and of course, the management of the Council's finances.

Whilst this is an extremely positive series of events, for the Council to sustain this favourable trajectory, it must review and monitor the various factors, influences and information that impact upon its direction of travel – key to this is the **Strategic Framework** – the foundation upon which its policies, plans and processes are based.

Review – Key Drivers

The Council's relatively successful navigation of the recession and more recently, the extended period of austerity owes much to the commitment to and delivery of the **Sustainability Strategy** through the collaboration between employees at all levels, partners, politicians and management.

Almost five years into the strategic timeframe, the Leader of the Council commissioned a review of the strategic and policy frameworks.

Further to this, ongoing policy reforms and legislative changes continued to have a profound impact upon local government. It was the ongoing imposition of austerity measures that had the most acute and limiting effect upon how this Council operates, a face clearly reflected in the wide ranging consequential remedies employed over this period.

Joint Working & Shared Services; Service reviews, staffing reductions and service standards, Efficiency models and Demand Management techniques have resulted in the Council becoming a multi-economy or hybrid organisation as opposed to its aspiration – An 'outcome focused', efficient corporate entity where customers are key.

The revised strategic framework is designed to address this issue through the refocusing of the public, political and professional perspectives upon an evidence based, informed set of **Thematic Priorities** based around the broad topics of **People; Place and Performance** as the generic areas of significance for all stakeholders.

Review – Methodology

In very simple terms, the approach was based upon the collection, collation and analysis of a range of data; an understanding of local issues and an awareness of key influences.

In summary

- Data, Customer/User insight and intelligence;
- Public consultation and wider engagement outcomes;
- A detailed understanding of our partners' plans;
- Political intentions and ambitions across the parties and the tiers;
- Our strategic plans – e.g., Local Plan; Housing & Health Strategies, Growth & Regeneration;
- Detailed knowledge of local and regional growth through devolution plans/intentions;
- Financial constraints and opportunities.

VISION STATEMENT

Public recognition and awareness of the current strapline was evident from both feedback and the fact that is now featured in literature relating to Tamworth as a destination. In order to incorporate a reference to growth and regeneration going forward and the Town's rich heritage, the **Vision Statement** has been revised as follows:

"One Tamworth, Perfectly Placed"

Open for business since the 7th Century A.D.

THEMATIC PRIORITIES

Following the review and using the language of the day, these are referred to as:

SP1 "Living a quality life in Tamworth"

SP2 "Growing strong together in Tamworth"

SP3 "Delivering quality services in Tamworth"

CORPORATE PRIORITIES

With regard to the **Corporate Priorities**, having assessed and evaluated the issues comprising the high level, strategic considerations and then triangulated the results with the outcomes arising from the 2016 Budget Consultation process, the following considerations have been factored in to the revisions:

- The priorities identified by the public are consistent with what our data and insight is telling us;

- A number of the service areas where the public endorse less spending are consistent with agreed plans for reviews/ efficiency plans;

- The primary 'place' related priorities identified by the public reflect the plans and ambitions of the organisation e.g., more quality housing options; a revitalised town centre; improved connectivity;

- The fact that our funding, resources and capacity are collectively reducing will inevitably have a significant impact upon how we manage demand and expectations. The proposals reflect a change in focus away from the topics **– Prosperity – Health – Safety – Aspiration** and more towards being clear about our role, our relationship with customers and how we will support them. The focus will primarily be upon **People, Place and Performance.** In order to personalise the relationship the corporate priorities are aligned under each theme;

These, together with the intended outcomes/success factors are set out in the Draft **Corporate Plan** attached at **Appendix A.**

In effect, these are the major actions that will be undertaken by the Council in addition to and in conjunction with each **Directorate Plan** which captures the statutory and discretionary functions and obligations of each service area i.e. the Day Job.

These plans rely heavily upon the support of high quality support services without which, past current and future achievement would not be possible. A **Support Service Plan** has been produced and forms part of the Corporate Plan.

Last year's budget report detailed a proactive approach to the challenge of ever increasing demand. By adopting the guiding principles, tools, techniques and transformational approaches, the Council can set about **managing demand** and thereby have greater control and the ability to align or target "supply" to managed "demand".

The primary change is a shift away from trying to sustain a full suite of services at high standards with 40%+ budget reductions to understanding the needs of our customers and working with them to co-design how we meet those demands.

The adoption of a Demand Management operating model for the Council was approved by Cabinet on 19th February 2015. Through its implementation, the Council will have far greater control upon the alignment of services or 'supply' to the increased needs and expectations of the public or 'demand'.

Key to this will be the application of existing and new technology to capture, collate and analyse customer insight, intelligence and data so as to understand not just the 'need' but the cause, behaviours or decisions creating the need. Then by the application of locality based commissioning for example, it can commission services that either intervene or prevent future need thereby reducing demand. The report entitled ***Creating Opportunities from an Uncertain Future*** is available to all Members and is available to the public. In summary, by adopting the model, supporting its implementation and measuring its progress, it will enable the Council to achieve its Vision and Priorities and fulfil its obligations.

- We will target resources upon those in most need and those most vulnerable.

- We will commission services that will both intervene/prevent future demand and reduce levels of vulnerability.

- We will, as a consequence, meet the Council's stated intention to ensure that the vulnerable are a priority **(Motion to Council on 26th November, 2014 refers).**

This approach will change the organisation and how it works; will require Members to take difficult decisions and adhere to them; will involve managed risks and will sustain **essential services critical in supporting the most vulnerable in our communities at a time when demand is increasing and resources reducing**.

Whether to implement change, react to funding reductions or simply to ensure compliance with reforms, the adoption of a "problem solving" approach to accommodating change has enabled the Council to maintain high quality public services.

The headline figures for 2016/17 are:

- A General Fund total cost of services of £8,459,820 a reduction of £3,820 compared to 2015/16;

- A transfer of £1,724,806 from General Fund balances;

- The Band D Council Tax would be set at £161.75, an increase of £3.15 (1.99% - £0.06 per week) on the level from 2015/16 of £158.60;

- A General Fund Capital Programme of £8.014m for 3 years;

- a Housing Revenue Account (HRA) Expenditure level of £14,884,180 for 2016/17 (excluding interest & similar charges);

- A transfer of £368,100 from HRA balances;

- An average rent of £87.38 (based on a 1% reduction in average rent for General Accommodation, as announced in the Summer Budget 2015, in line with the Government's requirement to reduce rents by 1% p.a. for the next 4 years), which represents a reduction of £0.88 (1% on the current average rent of £88.26) and equates to £80.69 on an annualised 52 week basis;

- Rents for Council House Tenants in Supported Accommodation for 2016/17 would be frozen at 2015/16 levels;

- A Housing Capital Programme of £52.734m (including c.£33.7m relating to the Regeneration Projects) for 5 years.

There are a number of key challenges affecting the medium term financial planning process (as detailed within the report), which add a high level of uncertainty to budget projections.

The medium term financial planning process is being challenged by Government austerity measures. The accomplishment of a balanced 3 Year Medium Term Financial Strategy for the General Fund is a major achievement as the Council, like others, has planned to deliver its budget process in light of unprecedented adverse economic conditions with a great deal of uncertainty over future investment and income levels such as car parking, land charges and corporate property rents.
It is also facing increased financial demands from Central Government for service improvements in areas such as local democracy and transparency – as well as substantial reductions in Government grant support in the future.

There is also a high degree of uncertainty arising from the most significant changes in Local Government funding - Business Rates Retention, changes in Support for Council Tax and technical reforms to Council Tax - as well as other changes arising from the Government's Welfare Reform agenda.

Additional demands for services (i.e. benefits and housing) arising from these austere times have been included where possible but this is dependent on the length and depth of the austerity measures.

In light of these uncertainties and issues arising from the sensitivity analysis (attached at **Appendix L**), it is felt prudent to include within the budget a number of specific contingency budgets (aligned to the specific uncertainties, where appropriate) to ensure some stability in the financial planning process (as detailed at **Appendix M**).

The assumptions made in the production of the MTFS are based on the best information available at the time and are subject to change. These will be monitored and reviewed on a Quarterly basis by CMT and Cabinet.

The Treasury Management Strategy Statement and report attached at **Appendix N** outlines the Council's Prudential Indicators for 2016/17 to 2018/19 and sets out the expected Treasury operations for this period.

The main issues for Members to note are:

- Members should understand the implications on Treasury Operations when setting the budget and Medium Term Financial Strategy;

- Members should be provided with access to relevant training – Members should ensure that they have the necessary skills and training.

  The aim is for all Members to have ownership and understanding when making decisions on Treasury Management matters.

- With regard to Counterparty selection for investment, rather than adopt a Lowest Common Denominator (LCD) methodology, a broader Counterparty evaluation criteria is used as recommended by Capita (the Council's Treasury Management consultants);

- The proposed Counterparty limits for 2016/17 have been increased, reflecting higher average investment balances available at present – but still in line with Capita's suggested 20% maximum of investment balances deposited with any one institution.

Options Considered

As part of the budget setting process a number of options for the council tax and rent increase levels for 2016/17 and future years have been modelled / considered.

Council Tax	**Option Modelled / Considered**
Model 1	**1.99% increase in Council tax in 2016/17 (followed by inflationary increases of c.1.99% p.a.)**
Model 1a	0% increase in Council tax in 2016/17 (followed by increases of c.1.99% p.a.)
Model 2	2.5% increase in Council tax in 2016/17 (followed by increases of 2.5% thereafter)
Model 3	0% increase in Council tax in 2016/17 (followed by increases of 0% thereafter)
Model 4	1% increase in Council tax in 2016/17 (followed by increases of 1% thereafter)

Rent	**Option Modelled / Considered**
Option 1	CPI + 1%
Option 2	**Reduction of 1% (in line with the Summer Budget announcement)**

These are detailed within the Base Budget report to Cabinet on 26th November 2015 and the Draft Medium Term Financial Strategy report to Cabinet on 14th January 2016 and Joint Scrutiny Committee (Budget) on 26th January 2016.

Resource Implications

A summary table of all the budget proposals is shown at the end of the report. The General Fund Summary Revenue Budget for 2016/17, appears at **Appendix E**. A summary of the resulting budgets over the 3 year period appears at **Appendix G**.

Closing balances over 3 years for the General Fund (GF) are estimated at £0.6m, above the minimum approved level of £0.5m. The draft Budget and Medium Term Financial Strategy is based on a council tax increase of 1.99% for 2016/17 (the maximum permitted under the Government set limits to trigger a referendum is 2.0%) followed by increases at c.1.99% p.a. thereafter & in line with statutory requirements.

The Summary HRA Revenue Budget for 2016/17 appears at **Appendix D** (including a summary of the resulting budgets over the 5 year period). Closing balances over 5 years for the HRA are estimated at £0.9m (compared to the minimum approved level of £0.5m).

The 3-year General Fund Capital Programme has been formulated based on the predicted available resources. Assuming that the anticipated capital receipts will be received, this leaves a balance of £0.81m available (the minimum approved level is £0.5m).

The Council's uncommitted Housing Capital Resources will effectively be reduced to £2.4m over 5 years (the approved minimum level is £0.5m).

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. In the Executive Director – Corporate Services' view, the budget proposals enclosed within this report include estimates which take into account circumstances and events which are reasonably foreseeable at the time of preparing the budget. In his view, the level of reserves remains adequate for the Council based on this budget and the circumstances in place at the time of preparing it.

Legal / Risk Implications

The Council's constitution requires Cabinet publish initial proposals for the budget, having first canvassed the views of local stakeholders as appropriate - budget proposals were considered at the Joint Scrutiny Committee (Budget) meeting on 26th January 2016. In line with the constitution a Joint Scrutiny Budget Workshop was held on 3rd December 2015 to outline the issues affecting the MTFS arising from the base budget forecast.

The budget has been set following extensive consultation with the people of Tamworth. This includes feedback from The State of Tamworth Debate, and responses from the 'Tamworth Listens' budget consultation exercise.

Proposed amendments to the 2015/16 base budget, approved by Council on 24th February 2015, are detailed within the report.

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

Key Risks to Revenue and Capital Forecasts:

Ref	Risk	Control Measure
1	Major variances to the level of grant / subsidy from the Government (including specific grants e.g. Benefits administration, Business Rates Section 31 funding); (**High)**	Sensitivity modelling undertaken to assess the potential impact in the estimation of future grant levels; **(Medium / High)**
2	New Homes Bonus grant levels lower than estimated; Continuation of the scheme in its current form is uncertain – further changes are subject to consultation. **(High/Medium)**	Future levels included on a risk based approach in order to offset further grant reductions / uncertainty over additional property numbers; **(Medium)**
3	Potential 'capping' of council tax increases by the Government or local Council Tax veto / referendum; **(Medium)**	Current indications are that increases of 2% or £5 and above risk 'capping' (confirmed as 2% for 2015/16); **(Low)**
4	The achievement / delivery of substantial savings / efficiencies will be needed to ensure sufficient resources will be available to deliver the Council's objectives through years 4 to 5. Ongoing; **(High)**	A robust & critical review of savings proposals will be required / undertaken before inclusion within the forecast; A minimum General Fund capital balance of £0.5m is a requirement – this has been financed in the past by revenue contributions (held in a revenue reserve). **(High/Medium)**
5	Pay awards greater than forecast; **(Medium)**	Public sector pay cap announced as part of the Summer Budget 2015 - 1% increase p.a. for 4 years from 2016/17; **(Medium / Low)**
6	Pension costs higher than planned / adverse performance of pension fund; **(Medium)**	Regular update meetings with Actuary; Increases of c.2% p.a. with a new 'lump sum' element have been included with agreement made with Pension Fund following triennial review (during 2013 for 2014/15) for 3 years; **(Medium)**
7	Assessment of business rates collection levels to inform the forecast / budget (NNDR1) and estimates of appeals, mandatory & discretionary reliefs, cost of collection, bad debts and collection levels; New burdens (Section 31) grant funding for Central Government policy changes – including impact on levy calculation;	Robust estimates included to arrive at collection target. Ongoing proactive management & monitoring will continue; Business Rates Collection Reserve - provision of reserve funding to mitigate impact of any changes in business rate income levels;

Ref	Risk	Control Measure
	Potential changes to the Business Rates Retention system by the DCLG in support of Town Centre Regeneration / equalisation of the scheme; **(High)**	Monitoring of the situation / regular reporting; **(High / Medium)**
8	Local Council Tax Reduction scheme implementation – potential yield changes and maintenance of collection levels; **(High)**	Robust estimates included. Ongoing proactive management & monitoring (including a quarterly healthcheck on the implications on the organisation – capacity / finance) will continue; **(High / Medium)**
9	Achievement of income streams in line with targets e.g. treasury management interest, car parking, planning, commercial & industrial rents etc.; **(High / Medium)**	Robust estimates using a zero based budgeting approach have been included; **(Medium)**
10	Delivery of the capital programme (GF / HRA – including Regeneration schemes) dependent on funding through capital receipts and grants (including DFG funding through the Better Care Fund); **(High / Medium)**	Robust monitoring and evaluation – should funds not be available then schemes would not progress; **(Medium)**
11	Dependency on partner organisation arrangements and contributions e.g. Waste Management (SCC/LDC). **(High / Medium)**	Memorandum of Understanding in place. **(Medium)**
12	Treasury Management - risk of counterparty default. (High / Medium)	Loss of deposits mitigated by Counterparty and Deposit monitoring (including Credit Default Swap – CDS - prices). (Medium/Low)

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

Report Author:

If Members would like further information or clarification prior to the meeting please contact Stefan Garner, Director of Finance – tel. 709242.

Background Papers:-	**Draft Budget and Medium Term Financial Strategy 2016/17 to 2020/21, Cabinet 14th January 2016 / Joint Scrutiny Committee (Budget) 26th January 2016**
	Business Rates Income Forecast (NNDR1 return), Cabinet 14th January 2016
	Corporate Review of Strategic Framework (Route Map from Surviving to Thriving), Cabinet 14th January 2016
	Treasury Management Strategy Statement & Annual Investment Strategy Mid-year Review Report 2015/16, Council 15th December 2015
	Joint Scrutiny Budget Workshop, 3rd December 2015
	Draft Base Budget Forecasts 2016/17 to 2020/21, Cabinet 26th November 2015
	Budget Consultation Report, Cabinet 22nd October 2015
	Budget and Medium Term Financial Planning Process, Cabinet 30th July 2015
	Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2015/16, Council 24th February 2015
	Treasury Management Training slides, February / October 2015
	Treasury Management Practices 2016/17 (Operational Detail)

Summary of Appendices

Description	Appendix
Corporate Vision for Tamworth	A
Detailed Considerations	B
Policy Changes	C
HRA Budget Summary 2016/17 – 2020/21	D
General Fund Summary Revenue Budget 2016/17	E
General Fund Technical Adjustments 2016/17 (before policy changes)	F1
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Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2016/17	N

CORPORATE VISION FOR TAMWORTH

“One Tamworth, Perfectly Placed”

Open for business since the 7th Century A.D.

This Vision for Tamworth underpinned by high level, evidence based priorities that focus upon both Tamworth (the place) and the communities served (the people).

THEMATIC PRIORITIES, CORPORATE PRIORITIES AND CORPORATE PLAN

SP1: “Living a quality life in Tamworth”

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
LQ001	**Support and protect individuals, communities that are or may become vulnerable**	• Adoption of the Tamworth Prevent Strategy	Successful implementation of the Prevent Strategy evidenced by completed awareness training of Staff, Members and partners	DoA&E
		• Implement changes to Sheltered Housing Services following withdrawal of supporting people funding	Housing Management Plus services embedded and outcomes achieved	DoH&H
		• Develop and deliver Homelessness Prevention services in line with – DCLG gold standard	Achievement of DCLG Gold Standard	DoH&H
		• Provision/Development of multi agency Digital Sharepoint	• Improve communication, ensure robust and consistent delivery	DoT&CP

SP1: "Living a quality life in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
LQ002	**Enable residents to improve their health and quality of life**	• Enable access to high quality leisure facilities through our partners	Ensure mechanisms for the provision of sports related activities are robust and meet the needs of the community Ensure the services/facilities provided match the demand within the indoor/outdoor Sports Strategy	DoA&E DoA&E
		• Enable the provision of leisure activities targeted at identified sectors of the community • Support the provision of health interventions for vulnerable people	Deliver currently commissioned services and develop proposals for future third sector provision	DoH&H
		• To secure and develop the scope of Locality Commissioning opportunities and mechanisms with strategic partners	Development of pooled budgets and integrated systems of working. Explore opportunities for Double Devolution Agreement of shared priorities and objectives with partners	DoH&H DoH&H

SP1: “Living a quality life in Tamworth”

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
LQ003	**Work together with partners and residents to tackle the causes of inequality in Tamworth**	• Explore options and mechanisms for developing self-help opportunities at a neighbourhood level	Managed transition from current scale of state support to self-help at a neighbourhood level	DoH&H
		• Engage collaboratively in the review of VCSE support and Development Models	Skilled VCSE ‘provider’ organisations forming a local ‘offer’ to the market	CEO
		• Facilitate review of strategic purpose and processes of the TSP	Aligned locality based multi-agency collaboration	CEO

SP1: “Living a quality life in Tamworth”

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
LQ004	**Work together with residents to maintain and improve a safe, clean and green environment**	• Ensure all green spaces and nature reserves are accessible by residents and are maintained to a standard that is conducive for use. • Continued commitment to a Community Safety Partnership that is responsive to locality, and reflects the needs of the community and partners	Continued use of the Wild about Tamworth project to provide support and guidance to both the volunteer groups and the Council Public feedback on how safe the community feels in Tamworth	DoA&E DoA&E
		• Review and implement options for Council housing repairs and investment services	Strategic decisions regarding the future of repairs and investment services and implementation planning complete	DoH&H/ DoA&E
		• Develop a unified neighbourhood offer		DoH&H

SP1: “Living a quality life in Tamworth”

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
LQ005	**Work together to improve housing quality in Tamworth**	• Explore and develop proposals for an asset backed vehicle for the delivery of new housing/deliver of services	Options understood and decisions regarding the future informed	DoH&H
		• Develop and deliver a programme of housing development on Council owned sites including exploration of asset backed vehicles to deliver prs	New Council homes and neighbourhood regeneration	DoH&H
		• Deliver regeneration at Tinkers Green and Kerria	New Council homes and Neighbourhood regeneration	DoH&H
		• Review and update the Council’s HRA Business Plan including reviewing the impact of Government policies	HRA Plan updated to inform strategic investment decisions	DoH&H
		• Review of Council’s Private Sector housing offer	Review informs strategic investment decision and service development	DoH&H
		• Complete the review of Healthy Housing Strategy and Action Plan	Updated strategic approach and Action Plan	DoH&H

SP2: “Growing Strong in Tamworth”

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
GS001	**Develop and support the local economy, together with local businesses and partners through our regional influence**	• Actively engage in the WMCA work stream for Innovation and Inward Investment	Fair and equitable access to Inward Investment	DoA&E
		• Sustain support for GBSLEP Growth Hub	Proactive stance on managing referrals	

SP2: "Growing Strong in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
GS002	**Work with businesses and developers to create a vibrant and sustainable town centre**	• To support local businesses with their submission for B.I.D. status • Use our regulatory powers within Licensing, Planning, and Environmental Health to be proactive with support and advice to enable business development • The provision of accurate and timely advice, support, guidance and signpost town centre business to relevant information, business support programmes, training and funding opportunities.	The formation of a Tamworth BID An increase in early intervention with a corresponding reduction in sanction. Increase in businesses staying for longer in the tow centre. Increased footfall and dwell time in the town centre	DoA&E DoA&E DoA&E
		• Collection of the levy arising from the planned Business Improvement District	Maximise the collection level for investment in local infrastructure	DoF

SP2: "Growing Strong in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
GS003a	**Work together to strengthen the relationships between schools/FE & HE/Employers**	• Actively engage with the GBSLEP & SSoTLEP in their respective programmes targeting young people • Engage as appropriate in Area Review processes	Increased opportunities for young people in job market Skilled & Employment ready workforce	DoA&E HoPR
GS003b	**Champion higher skilled and better paid jobs in Tamworth**	• Actively engage in and influence key strategic work streams namely: WMCA Skills & Productivity Commission & SSoTLEP Employment & Skills work streams	Economic growth through prosperity Impact upon causes of deprivation and reduced reliance on State support	DoA&E HoPR
GS003	**Use our regional influence to support an environment where business and enterprise can flourish and grow**	• Working with GBSLEP Finance Directors to maximise retention of business rates to improve the economy and infrastructure of the region • Working with GBSLEP Legal Directors to ensure Scrutiny and governance compliance	Maximise collection of business rates within the GBS rate retention pool Use of insight data to identify additional business rate collection opportunities in order to maximise local business rate collection levels Probity of decision making Robust scrutiny of proposals and decisions	EDCS StC&MO
		• Engage as necessary in order to benefit from Non-Constituent Membership of WMCA • Maintain ongoing commitment to GBSLEP via Board and Executive membership • Maintain ongoing commitment to SSoTLEP and countywide collaborations	Seek opportunities to enhance key growth, skills regeneration outcomes Influence major decisions that impact upon economic growth Further enhance growth opportunities	

SP2: "Growing Strong in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
GS004	**Work together to strengthen the connections between schools/FE & HE/Employment to create opportunities for higher skilled and better paid jobs**	• Engage in the WMCA and SSoTLEP Skills and Productivity work streams	Improved links between main education providers and businesses	CEO

SP2: "Growing Strong in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
GS005	**Adopt a commercial approach to managing Council assets in order to enhance the viability of the Borough Council**	• To commission a review of the Town Centre Master plan	Refreshed masterplan giving a focused view	DoA&E
		• To facilitate progress by developers/landowners of sites identified in the local plan for housing and / or commercial activity	Additional homes and floor space	DoA&E
		• To facilitate progress by developers/landowners of the regeneration of the Gungate Site	Robust and Proactive approach to facilitating development of land	CEO/ DoA&E/ DoH&H

SP2: "Growing Strong in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
GS006	**Work together to preserve and promote Tamworth's heritage, leisure and natural environment**	• Explore opportunities that will ensure all Council investment assets produce a revenue stream to support corporate priorities	The production of a planned sustainable income stream based upon investment assets	DoA&E
		• To ensure consideration of commercial opportunities in business decision making	A risk/reward based return on investment requirement within planned projects Producing options appraisals, business cases and review opportunities for setting up Local Authority Trading Companies as well as other business models for service to maximise return on Council assets and increase economic benefit for the Council Increase income through adopted commercial approach	EDCS

SP2: "Growing Strong in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
GS007	**Work together to preserve our culture; preserve our heritage and sustain our natural environment**	• To project manage the delivery of the Creative Quarter regeneration	Project completed on time and within budget	DoA&E

SP3: "Delivering quality services in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD

DQ001	**Provide accurate information via a fully integrated Customer Services Centre**	• Undertake fundamental review of customer services functions across every service
		• Remodel service functions, standards and systems having regard for:
		  ○ Demand Management
		  ○ Current inconsistencies of service delivery/ standards
		  ○ Customer feedback/ demand
		  ○ Digital & Technology
		  ○ Efficiency & Added Value
		• Co-design Customer Service standards with user groups
			Enhanced, consistent and accessible customer services
			
			Improved customer experience and satisfaction ratings
			
			Increased efficiency and capacity
			
			Reduced demand and waste
			
			Agreed, measureable standards
			
			Availability of data and customer insight to aid future planning
			
			Streamlined, efficient corporate services
				ALL

		• To provide support for the integrated Customer Services Centre • Full and robust implementation of Corporate Change Programme	• To enable first time resolution and reduction in waste • Promotion of digital channels to reduce demand • Technical support from back office including appropriately trained staff • Provision of digital data and information, enablement of automation and self service, consistent and robust service provision	

SP3: "Delivering quality services in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
DQ002	**Work with customers to improve their access to council services**	• Seek customer feedback consistently across all service areas • Explore and develop new channels of access • Deliver services that are digital by default	24/7 access for a full range of council services New technology exploited Improved efficiency of access channels Improved customer satisfaction with access to Council Services Increased number of services available on line Cost of delivery/transaction costs reduced	ALL

SP3: "Delivering quality services in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
DQ003	**Enable and support Tamworth residents and businesses using our statutory and regulatory powers**	• Implementation of the Crime and Police Act 2014 • Delivery of a Community Safety Partnership that is responsive to locality, and reflects the needs of the community and partners	Appropriate use of the new legislation to ensure public concerns over ASB are dealt with swiftly Positive public feedback on how safe the community feels in Tamworth.	DoA&E DoA&E
		• Proactive Business Continuity information sharing with businesses	Enablement of a full business and community response in the event of an incident	DoT&CP

SP3: "Delivering quality services in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
DQ004	**Enabling greater public engagement in local decision making**	• Explore new methods of ways in which the community can engage with the delivery of council services using data and intelligence • Continue to develop democratic community leadership • local ownership and delivery of services measured by percentage of local public assets & facilities run by Voluntary Bodies, SMEs, etc	Services shaped by users Inspirational informed community leaders Increased number of people who feel they can influence decisions in their locality Increase customer capability/capacity to self-manage	
		• Budget Consultation • Local Council Tax Reduction Scheme consultation • State of Tamworth Debate • Registration of Electors/Individual Elector Registration/Elections • Council, Cabinet, Planning Committee	Carry out annual consultation process to inform local priorities for the MTFS Consultation on scheme proposals needed to balance cost of scheme to council taxpayers against needs of the vulnerable Encourage through media sources public involvement in the democratic process to add and facilitate the shape of Tamworth the place Provision of information to citizens through digital channels	DoT&CP/ DoF DoTCP/ EDCS

SP3: "Delivering quality services in Tamworth"

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
DQ005	**Demonstrate value for money**	• Review, remodel and realign services and resources by aligning them to our vision, purpose and priorities • Implement organisational transformation to ensure the Councils workforce is equipped and positioned for change • Challenge statutory need and reduce demand for services • Deliver a training plan that focuses on behaviours, culture and leadership	Unified back office functions Services aligned to customer needs Creation of an environment that enables people to be the best they can be Reviewed senior management structure to ensure positive, transformational and courageous leadership Delivery of facilitated leadership development programme to create consistent leadership culture Organisation fit for 21st Century	

REF	CORPORATE PRIORITY	CORPORATE OBJECTIVE OR PLANNED ACTIONS	INTENDED OUTCOME OR SUCCESS FACTOR	CMT LEAD
		• Proper Governance advice for officers and Members	• Development of e-learning modules to enhance governance awareness • A risk/reward based return on investment requirement with planned projects • Provision of financial, legal, ICT and procurement support for the decision making process	EDCS
		• Business case approach to investment decisions	• Producing options appraisals, businesses cases and review opportunities for setting up local Authority Trading Companies as well as other business models for service to maximise return on Council assets and increase economic benefit for the Council	DoF
		• To provide appropriate professional support		DoF/ StC&MO DTCP
		• Consideration of commercial opportunities in business decision making		EDCS/ DoF

Support Service Plan

- **Effective financial planning**
  - Ensure that available financial resources are targeted at delivering the Council's corporate objectives by supporting the development of a business case approach
  - Support the exploration of alternative delivery vehicles for business development
  - Provide strategic, technical and other advice and support to help deliver corporate projects and business objectives
  - Provide risk based governance and management
  - Develop a stronger focus on measuring cost and performance of all activities
  - Ensure efficiency targets are built into all Council contracts
- **Deliver an organisational development strategy**
  - Equip its employees with skills required in a 21st century business
  - Support the delivery of transformational change
  - Explore technological solutions to support business development
- **Develop exceptional customer service**
  - Support increased customer access and self service ensuring services are developed and digital by default
  - Develop a corporate knowledge hub that uses customer insight to shape service delivery
- **Support business delivery units**
  - Support a project management approach to all corporate projects
- **Robust exploitation of technology and competence**
  - Raise competence and skill sets of staff, elected members and partners to fully utilise and exploit technology
  - Ensure inclusive access to technology for all
- **Significantly expand our response to the provision of digital data**
  - Develop a digital approach that seeks to go beyond the basic requirement of data publishing legislation i.e. Transparency Agenda
- **Robust provision of programme and project management support**

- **Consolidation of corporate applications**
    - Demand manage applications to support corporate and front end processes
    - Work with partners to assess validity of shared systems
- **Implement technical self service**
    - Demand manage the requirement for technical support / resource within the organisation to support agile working
    - Ensure relevant skill sets to respond to self service, both technical and customer based

Appendix B

Detailed Considerations

Introduction

The Council's approach to medium term planning aims to integrate the Council's Corporate and financial planning processes. In accordance with that approach this report contains firm proposals for 2016/17 and provisional proposals for the following years.

It is intended that all aspects of the budget should be agreed by Members and so this report details each amendment which is proposed to the 2015/16 budget to arrive at the starting point for 2016/17. The report deals in turn with each of the key elements and towards the end of each section is a summary table. Each of these tables is brought together in the summary and conclusions section at the end of the report.

The Council's MTFS used as the basis for the 2016/17 budget, aimed both to deal with a challenging financial position and to find resources to address the Council's corporate priorities. The approved package was based upon:

- The need to compensate for reduced income levels arising from the unprecedented economic / world events which have led to the economic downturn / recession;
- Injecting additional resources into corporate priorities;
- Increasing income from council tax and fees and charges;
- Making other savings and efficiencies.

Financial Background

The medium term financial planning process is being challenged by the uncertain economic conditions. There are a number of challenges affecting the Medium Term Financial Planning process for the period from 2015/16 which add a high level of uncertainty to budget projections.

a) Potential changes to future New Homes bonus levels following receipt, in late December 2015, of a Government consultation paper on changes to the scheme. No effect of this has been included at this stage – the impact of the potential options have been modelled and could potentially adversely affect the MTFS by up to £0.2m (excluding the further option to restrict the scheme payments to 2 or 3 years);

b) Finalisation of Revenue Support Grant levels for future years following the Chancellor's Summer Budget in July 2015 (which indicated further £18bn cuts to Public Service spending by 2019/20) and the outcome from the Comprehensive Spending Review published on 25th November 2015. Provisional figures were received in December 2015 and included within the projections within this report;

c) The impact of Business Rate Reform from 1st April 2013 and the associated forecast business rates receivable in 2015/16 and future years – of which the Council's budget will receive 40% (subject to 20% levy reduction on 'excess' rates payable to the Greater Birmingham & Solihull Local Enterprise Partnership (GBSLEP) after deduction of the 50% central share, 9% County Council and 1% Fire & Rescue Authority share). Uncertainty remains over the planned revaluation in 2017 and recent Government consultation regarding proposals for Councils to keep 100% of the business rates collected by 2020;

d) The calculation of the level of business rate appeal costs – of which the Council has to fund 40% from its own budgets – a provision of £3.8m was set aside in 2014/15 (40% of which relates to the Council);

e) Future Pension contribution levels - following the triennial review carried out by the Actuaries employed by the Pension Fund - indicative *ongoing* annual increases in Employer's contributions of c.2% p.a. for the next 3 years have been included. This now includes an ongoing lump sum (with an annual increase) relating to past liabilities and a set rate for future employer contributions of 16.5% p.a.

f) The impact of Pension Auto-Enrolment and the single tier pension from 2016/17 – no additional cost associated with auto enrolment has been included as salary budgets are prepared on a full cost basis (and then reduced by the 5% vacancy allowance);

   An increase in Employer's National Insurance contributions of 3.4% p.a. has been included from 2016/17 when the single-tier pension starts as the State Second Pension scheme will close and contracting out will end;

g) While the Government announced a pay cap for 2014/15 & 2015/16, a 2.2% increase (plus other changes) was agreed from 1st January 2015. As part of the Summer Budget announcements, a 1% pay cap for public sector workers for the next 4 years has been set. In addition, from April 2016, a new compulsory National Living Wage for the over 25s will be introduced to replace the National Minimum Wage, currently set at £6.50 per hour.

   The National Living Wage will be set at £7.20 when it comes into effect in April 2016. It will then rise over the next four years to £9.00 per hour in 2020;

h) Proposed changes set out in the Welfare Reform Act 2012 and the introduction of Universal Credit – impact on housing benefits staffing (as a result of the transfer of Universal Credit to the Department for Work & Pensions), the Housing Benefit administration grant and associated income receipts of the council (including Housing Rents and Council Tax);

i) The impact of any further uncertainty over future interest rate levels and their impact on investment income / treasury management;

j) Due to uncertainties around the Better Care Fund, a significant risk on the current grant funding for Disabled Facilities Grants (DFG) is highlighted after 2015/16 as passporting of the grant was guaranteed for 1 year. A grant of £224k p.a. has been assumed to be redistributed – in line with the funding notified for 2015/16;

k) The effect of the reduction in Social Housing Rents announced in the Summer Budget 2015 – rents are to be reduced by 1% a year for four years from 2016/17, requiring local authorities and housing associations to make savings, and this will mean a reduction in HRA rent income of c.£600k p.a. each year for 4 years (cumulative) due to the 1% reduction and as the planned inflationary increases of c.3% p.a. will also not be made;

l) The impact that Social Tenants with household incomes of at least £40k in London and at least £30k elsewhere, will have to pay a market or near market rent. Local Authorities will have to repay the rent subsidy that they recover from high income tenants to the Exchequer;

m) Any impact from the sale of high value council housing scheme;

n) Finalisation of the expected outcomes and impact on the Council's financial position from the programme of short-term and medium-term workstream reviews commissioned by Cabinet in August 2013 as part of the 'Planning for a Sustainable Future' overarching strategy to identify measures to help the Council cope with grant & income reductions in the coming years - potential savings arising from the Sustainability Plan workstreams have been included;

o) Review and finalisation of the revised budgets/policy changes and feedback from the scrutiny process – including the Council Tax increase for 2016/17 following confirmation of the referendum threshold.

In light of these uncertainties and issues arising from the sensitivity analysis (attached at **Appendix L**), it is felt prudent to include within the budget a number of specific contingency budgets (aligned to the specific uncertainties, where appropriate) to ensure some stability in the financial planning process (as detailed at **Appendix M**).

Following review of the sensitivity of the factors within the forecasts, pay award & inflation, interest rate movements together with changes in Government Grant support could all significantly affect the forecast as follows:

Effect of x% movement:	% + / -	Impact over 1 year +/- £'000	Impact over 3 years +/- £'000	Impact over 5 years + / - £'000	Risk
Pay Award / National Insurance (GF)	0.5%	43	262	661	M/H
Pension Costs	0.5%	0	174	582	M/H
Council Tax	0.5%	33	154	244	L/M
Inflation / CPI	0.5%	46	283	723	M/H
Government Grant	1.0%	39	210	466	M/H
Investment Interest	0.5%	145	971	2552	H
Key Income Streams	0.5%	6	38	103	L
New Homes Bonus	10%	65	385	947	H
Business Rates	0.5%	67	402	1003	H

GENERAL FUND

Future Revenue Support Grant & Business Rate income

On 17 December 2015, the Secretary of State for the Department for Communities and Local Government, Greg Clark MP, made a statement to Parliament on the provisional local government finance settlement 2016/17. The final Local Government Finance Settlement figures were confirmed on 9th February 2016 following an announcement in Parliament on 8th February – with no change from those provisionally released in December 2015.

In total, over the 4 year period, overall funding should be c.£269k better than expected in 2016/17 (£1.2m over 4 years).

RSG is c.£255k better in 2016/17 at £1.21m (£954m within the current forecast) - £835k over 4 years. It represents a 24.8% reduction in RSG.

The revised Business Rates forecast will mean additional income of £14k for 2016/17 (£327k over the 4 years to 2019/20).
The Government has also offered any council that wishes to take it up, a four-year funding settlement to 2019-20. It is recommended that the Council accept this offer - as part of the move to a more self-sufficient local government, these multi-year settlements can provide a degree of funding certainty and stability.

The Government has made a clear commitment to provide central funding allocations for each year of the Spending Review period, should councils choose to accept the offer - and if they have published an efficiency plan. In determining allocations for future years, the Government has assumed that it will continue to use the same methodology.

For the period 2015/16 to 2019/20, there is a reduction to the England Settlement Funding Assessment (SFA) of 31.8% (based on the adjusted 2015/16 figure), as per the table below.

	2015-16 adjusted £m	**2016-17** £m	**2017-18** £m	**2018-19** £m	**2019-20** £m
SFA	21,250	18,601	16,622	15,536	14,500
Change %		(12.5)%	(10.6)%	(6.5)%	(6.7)%
Cumulative change %		(12.5)%	(21.8)%	(26.9)%	(31.8)%

In addition to SFA funding, starting in 2017/18, there will be additional funding through the “Improved Better Care Fund”. By 2019/20, this will be worth £1.5bn per annum. This funding will go to authorities with Social Care responsibilities to complement the new 2% Social Care Council Tax precept, which was previously announced in Spending Review 2015. This funding will take into account the amount that each authority can raise locally through a 2% increase in Council Tax.

Rather than all local authorities receiving the same percentage reduction in Revenue Support Grant (RSG) funding, **the government now propose to take into account the amount that can be raised locally from Council Tax, thereby increasing the reduction in RSG funding for higher taxbase authorities (in terms of the ratio of taxbase income to SFA) and lowering the reduction for lower than average taxbase authorities**.

The government has also altered the split of funding between tiers of government, which would appear to favour upper tier services and lead to higher funding reductions for district councils.

The provisional figures are expected to be confirmed in late January/early February 2016 (within the final settlement announcement).

The 2016/17 announcement includes local authority allocations for 4 years up to 2019/20 – with a caveat from the Government that in order to accept the offer of the 4 year certainty, evidence of value for money in order to achieve efficiencies has to be provided.

A new methodology for determining authorities' RSG allocations has been proposed within the provisional settlement. Rather than applying the same percentage cut to all authorities, **the new approach takes into account individual authorities' council tax raising ability and the type of services provided.** This would appear to favour upper tier authorities, with significantly larger funding reductions for district councils.

The methodology adds together authorities' SFA amount and their forecast council tax income for 2016/17 (based on individual authorities' actual council tax levels), before applying a percentage reduction. **This approach means that authorities with a lower than average council taxbase like Tamworth (relative to their SFA amount) have a lower reduction in grant (and those with a higher taxbase have a higher reduction in grant)**.

The methodology therefore aims to take into account the amount that an authority can raise locally/the impact on overall funding of RSG reductions. It is a similar approach to the Resources block, with the previous four-block model (last used to set the Baseline Need amounts in 2013/14). **By using actual council tax levels, rather than an assumed level, this approach also favours authorities with below average Council Tax, and disadvantages those with above average Council Tax levels.**

Due to this approach reducing some authorities' RSG to zero before 2019/20, it appears that the government plans to reduce top up/increase tariff amounts for these authorities, in order that the overall change in funding is consistent across all authorities.

Given the current economic climate and further anticipated reductions in Central Government Grant support together with the uncertainty around the impact of the Business Rate Retention scheme, detailed modelling has been carried out in order to prepare estimated Business Rates income levels.

For future years, in light of indications of further grant reductions, it had been assumed that there will be a reduction in Revenue Support Grant as detailed below.

BASE BUDGET	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Budgeted Funding:				
Revenue Support Grant	954,322	541,893	251,444	75,714
% RSG Reduction	(41)%	(43)%	(54)%	(70)%
Provisional Settlement Funding (December 2015):				
All District Councils	265,151,084	133,211,054	52,202,688	(38,287,152)
% RSG Reduction	(37)%	(50)%	(61)%	
Tamworth Borough Council	1,209,603	770,996	493,964	184,529
% RSG Reduction	(25)%	(36)%	(36)%	(63)%
Impact of change in methodology	**255,281**	**229,103**	**242,520**	**108,815**
Total				**835,720**

As identified above, the reduction experienced by the Council is lower than expected / budgeted. RSG is c.£255k better in 2016/17 at £1.21m (£954m within the current forecast) - £835k over 4 years. It represents a 24.8% reduction in RSG.

However, it should be noted that the budgeted reduction is highly comparable to the average reduction for all District Councils, highlighted in the table above.

Business Rates

The 2016/17 provisional finance settlement represents the fourth year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding. As in the previous three years, the provisional settlement provides authorities with a combination of provisional grant allocations and their baseline figures within the BRR scheme.

Additional monthly monitoring has been implemented since the implementation of business rate retention from 2013/14 – following approval of the NNDR1 form (Business Rates estimates) by Cabinet in January each year.

The Council received additional business rates during 2013/14 (above forecast / baseline) and had to pay a levy of £386k to the Greater Birmingham & Solihull Local Enterprise Partnership (GBSLEP). No levy was payable for 2014/15 due to the significant increase in appeals during March 2015 – which meant an increase in the provision from £1m to almost £4m. The latest estimates indicate additional business rates receivable above the baseline in 2015/16 – of which the Council will receive 40% less the Government set tariff payment of c.£11m (and a 20% levy on any surplus over the baseline to the GBSLEP) - after deduction of the 50% Central Share, 9% County & 1% Fire & Rescue Authority shares).

However, the future position is less certain. A robust check & challenge approach has been taken of any increases on the base figure, including a risk assessed collection level.

New Burdens (Section 31) Grant is receivable for additional reliefs given by the Government relating to business rates from 1st April 2014 e.g. Small Business Rate Relief – of which 50% of any in excess of the baseline will be payable in levy to the GBSLEP. A prudent approach has been taken in respect of any new burdens funding – and, due to uncertainties & risk, the creation of an associated Business Rates Collection reserve to mitigate fluctuation in income. The forecast Section 31 Grants and levy payments included within the updated budget forecasts are detailed below.

Section 31 Grants / Levy	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Section 31 Grant income	(308)	(300)	(308)
Business Rates Levy payment	395	459	160

For future years, the Government assessed Business Rates Baseline is detailed below:

BASELINE	**2016/17 £**	**2017/18 £**	**2018/19 £**	**2019/20 £**
Budgeted Funding:				
Retained Business Rates	£12,927,984	£13,199,472	£13,489,860	£13,800,127
Less: Tariff payable	(£10,763,060)	(£10,989,084)	(£11,230,844)	(£11,489,153)
Total	2,164,924	2,210,388	2,259,016	2,310,974
% Reduction	2.0%	2.1%	2.2%	2.3%
Provisional Settlement Funding (December 2015):				
Retained Business Rates	12,780,114	13,031,478	13,415,916	13,844,713
Less: Tariff payable	(10,639,952)	(10,849,222)	(11,169,283)	(11,526,273)
Total	2,140,162	2,182,256	2,246,633	2,318,440
% Reduction	**0.8%**	**2.0%**	**3.0%**	**3.2%**
Increase / (Decrease)	**(24,762)**	**(28,132)**	**(12,383)**	**7,466**

As identified above, the Business Rates Baseline is £25k lower than expected at £2.14m. However, due to the variable nature of the BRR element of local authority funding, the provisional settlement no longer provides the absolute funding level for authorities. Overall, Government External support (combined RSG/***Baseline*** NNDR) is £230k higher than expected in 2016/17 – the overall reduction in Government Support is 10.2% (compared to our assumed reduction of 16.4%). The position over 5 years is better by £786k.

The government's Business Rates Baseline for the authority is only based on an adjusted average income figure, and therefore is not representative of the Business Rates Baseline. The business rates forecast income has now been finalised – the updated budget estimates are detailed below:

BASE BUDGET	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£	**£**	**£**	**£**
Budgeted Funding:				
Retained Business Rates	13,370,980	13,372,552	13,374,753	13,380,497
Less: Tariff payable	(10,763,060)	(10,989,084)	(11,230,844)	(11,489,153)
Total	2,607,920	2,383,468	2,143,909	1,891,344
% Reduction	(1)%	(9)%	(10)%	(12)%
Provisional Funding (Updated January 2016):				
Retained Business Rates	13,262,270	13,648,160	13,426,704	13,201,418
Less: Tariff payable	(10,639,952)	(10,849,222)	(11,169,283)	(11,526,273)
Total	2,622,318	2,798,938	2,257,421	1,675,145
% Increase / (Decrease)	**-**	**7%**	**-19%**	**-26%**
Increase / (Decrease)	**14,398**	**415,470**	**113,512**	**(216,199)**
Total				**327,181**

As identified above, the Business Rates tariff payment is lower than budgeted for in 2016/17 by £123k (£287k over 4 years). The revised Business Rates forecast will mean additional income of £327k over the 4 years to 2019/20.

Based on this Government financial support will reduce over the period as shown in the table below.

BASE BUDGET	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£	**£**	**£**	**£**
Budgeted Funding:				
Revenue Support Grant	954,322	541,893	251,444	75,714
Retained Business Rates	13,370,980	13,372,552	13,374,753	13,380,497
Less: Tariff payable	(10,763,060)	(10,989,084)	(11,230,844)	(11,489,153)
Total	3,562,242	2,925,361	2,395,353	1,967,058
% Reduction	(16)%	(18)%	(18)%	(18)%
Provisional Funding (Updated January 2016):				
Revenue Support Grant	1,209,603	770,996	493,964	184,529
Retained Business Rates	13,262,270	13,648,160	13,426,704	13,201,418
Less: Tariff payable	(10,639,952)	(10,849,222)	(11,169,283)	(11,526,273)
Total	3,831,921	3,569,934	2,751,385	1,859,674
% Reduction	**(10)%**	**(7)%**	**(23)%**	**(32)%**
Increase / (Decrease)	**269,679**	**644,573**	**356,032**	**(107,384)**

The table shows that overall funding should be c.£269.68k better than expected in 2016/17 (£1.2m over 4 years).

No provision for a levy redistribution from the GBSLEP has been included.

There are still significant uncertainties relating to future years Business Rates income - specifically the treatment of:

- The estimated level of refunds of Business Rates following the Appeal process; and

- Provision of Section 31 grant funding (including Small Business Rate Relief Grant) – which could affect the calculation of any levy payment and thereby reduce retained Business Rate income.

The NNDR1 forecast approved by Cabinet on 14th January 2016 has now been finalised including amendments to reflect changes arising from the submission of an application for mandatory reliefs by NHS Trusts.

New Homes Bonus

When the base budget was prepared, it had been assumed that the New Homes Bonus scheme will continue with such funding included using a risk based approach.

The New Homes Bonus top-slice from RSG for 2016/17 is £1,275m. The 2016/17 forecast allocation of New Homes Bonus is £1,485m (£1,461m in allocations and £24m in returned funding). DCLG support for the scheme has fallen from £250m in 2015/16 to £210m in 2016/17.

At present, it appears that there are no changes to the scheme planned before 2017/18, with in-year allocations increasing to £1,485m in 2016/17, £1,493m in 2017/18 and then a reduction to £938m in 2018/19 and to £900m by 2019/20. The amounts for 2016/17 and 2017/18 would be consistent with authorities receiving allocations as per the current system. For example, the forecast allocation for Tamworth BC (below) shows a pattern consistent with the national allocations, with a reduction to the scheme value from 2018/19 onwards.

- 2015/16 (current) £0.56m
- 2016/17 £0.66m
- 2017/18 £0.66m
- 2018/19 £0.41m
- 2019/20 £0.40m

The following modelling on the consultation proposals has been undertaken and indicates a potential loss of grant funding of £0.2m over 3 years should the Government implement all aspects of the consultation proposals:

	2016/17 £'000	2017/18 £'000	2018/19 £'000
Reduction in scheme payments from 6 to 5 Years from 2017/18:			
Revised Forecast	651	601	697
(Increase) / Decrease in grant	(2)	40	(78)
(Increase) / Decrease over 3 years			(40)
Reduction in scheme payments from 6 to 4 Years from 2017/18:			
Revised Forecast	651	493	697
(Increase) / Decrease in grant	(2)	149	(78)
(Increase) / Decrease over 3 years			69
As above plus a 'Deadweight' allowance of 0.25% of Taxbase:			
Budgeted	651	445	602
(Increase) / Decrease in grant	(2)	197	17
(Increase) / Decrease over 3 years			211

This excludes the further option to restrict scheme payments to 2 or 3 years.

Technical Adjustments

Revisions have been made to the 2015/16 base budget in order to produce an adjusted base for 2016/17 and forecast base for 2017/18 onwards. These changes, known as technical adjustments have been calculated to take account of:

- virements approved since the base budget was set;
- the removal of non-recurring budgets from the base;
- the effect of inflation;
- changes in payroll costs and annual payroll increments;
- changes in expenditure and income following decisions made by the Council;
- other changes outside the control of the Council such as changes in insurance costs and reduction in grant income;
- a ‘Zero base budgeting’ review of income levels.

They are summarised in **Appendix F1** and the main assumptions made during this exercise are shown in **Appendix K**.

They have been separated from the policy changes, as they have already been approved or are largely beyond the control of the Council, and are summarised below:

Technical Adjustments	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Base Budget B/Fwd	8,464	8,032	8,085
Committee Decisions	(402)	298	(540)
Inflation	15	35	32
Other	(427)	(391)	(317)
Pay Adjustments (Including pay award / reduction of 5% for vacancy allowance)	319	111	88
Revised charges for non-general fund activities	63	-	-
Total / Revised Base Budget	**8,032**	**8,085**	**7,348**

* ( ) denotes saving in base budget

Policy Changes

The policy changes provisionally agreed by Council in February 2015 have been included within the technical adjustments for 2016/17 onwards. **A list of the proposed new policy changes for 2016/17 is attached at Appendix C and summarised below:**

Policy Changes Identified	2016/17 £'000	2017/18 £'000	2018/19 £'000
Contingency budget to allow for 'in year' decisions to be made by Cabinet & to provide for any potential further reductions in income as a result of the financial climate	100	-	-
Contributions to / from Transformation reserve	-	(360)	300
West Midlands Combined Authority (WMCA) - contribution towards set up costs	25	-	-
Business Rates Levy payment	(22)	168	3
Business Rates Section 31 Grant Income	82	108	119
Cultural Quarter - Potential Prudential Borrowing Financing Costs	-	86	86
Funding for a project officer (for 3 years) that would be dedicated to managing the projects for growth	44	44	45
Costs of Cultural Quarter Project no longer considered as Capital	124	-	-
HLF Funding for cost of Cultural Quarter no longer considered Capital	(124)	-	-
Agile Working Project - Deferral of receipt of projected income for Marmion House / Loss of income	143	143	143
Replacement of the aging operational fleet of Council vehicles. These vehicles cover operational areas within Streetscene, Cemeteries, Arboricultural Services and Housing Caretakers	30	30	30
Waste Management Contingency	50	50	50
Total New Items / Amendments	**452**	**269**	**776**

Capping / Local Referendum

In the past, the Government had the power under the Local Government Act 1999 to require councils to set a lower budget requirement if it considered the budget requirement and council tax had gone up by too much. The Localism Act 2011 abolished the capping regime but introduced new requirements on a Council to hold a local referendum if it increases its council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons.

The principles for 2016/17 are that authorities will be required to seek the approval of their local electorate in a referendum if, compared with 2015/16, they set council tax increases that are equal to or exceed 2.0% or £5.

The Government have indicated in previous years that it would offer limited grant support for the previous 4 year Comprehensive Spending Review (CSR) period should the Council freeze Council tax levels. It does not appear that a similar scheme will operate for 2016/17 or future years should the Council freeze the council tax level.

Should Council Tax be frozen at the 2015/16 level for 2016/17 then this would reduce income by c.£66k p.a. – c.£340k over the 5 year period.

Consideration of the likely level of Council Tax increases over the 5-year period is needed to avoid the potential costs of holding a referendum and to ensure that balances are maintained at the minimum approved level of £500k. The indications are that a potential threshold will be 2.0% in future years (subject to confirmation by Ministers) - the impact of a c.1.99% p.a. (with a c.1.99% increase in 2016/17) is outlined below.

Council Tax

Last year's medium term financial plan identified ongoing increases of c.1.99% per annum from 2016/17.

Each £1 increase in the band D Council Tax would raise approximately £21k per annum. For each 1% increase in Council Tax, the Council will receive c. £33k additional income per annum.

The Council's provision for collection losses for 2016/17 has been approved at 2.1% (the same level as 2015/16). In order to meet the on-going expenditure requirements the Council will have to increase the underlying income base.

The Band D Council Tax would increase to £161.75 for 2016/18 (£158.60 - 2015/16).

Future levels of Council Tax and the projected impact on the General Fund revenue account forecast would be as follows:

Year:	2016/17	2017/18	2018/19
Forecast:	£'000	£'000	£'000
Surplus (-) /Deficit	1,725	1,271	1,726
Balances Remaining (-) / Overdrawn	**(3,605)**	**(2,334)**	**(608)**
£ Increase	3.15	3.20	3.25
% Increase	1.99%	1.98%	1.97%
Note: Resulting Band D Council Tax	161.75	164.95	168.20

which indicates potential balances of £0.6m (compared to the minimum approved level of £0.5m) is forecast as remaining over the 3 year period. As current capping guidance indicates a 'capping' threshold of 2.0%, this is considered a low risk option.

Also available to the Council to support expenditure otherwise funded from Council Tax are surpluses arising from the Council's share of surpluses (or deficits) within the Council Tax and Business Rates elements of the Collection Fund.

It is proposed that surpluses / deficits be used (and that the relevant sums be made available to the other precepting authorities – the County Council, Fire & Rescue and Office of the Police & Crime Commissioner (OPCC). It is estimated that there will be a surplus of £0.75m for Council Tax and a deficit of £1.4m for Business Rates.

Year:	2016/17	2017/18	2018/19
Council Tax	£'000	£'000	£'000
Council Tax Income	(3,381)	(3,490)	(3,623)
Collection Fund Surplus (Council Tax)	(82)	-	-
Collection Fund Deficit (Business Rates)	560	-	-

The County Council, OPCC and Fire & Rescue Authority are due to finalise their budgets for 2016/17 during February 2016. The impact of the Borough Council tax proposals is shown for each Council Tax Band in **Appendix H**.

Balances

At the Council meeting on 29th February 2000 Members approved a minimum working level of balances of £0.5m. At 31st March 2016 General Fund Revenue Balances are estimated to be £5.33m, compared with £3.685m anticipated a year ago.

The minimum level of balances for planning purposes will remain at £0.5m.

Summary and Conclusions

These budget proposals reflect the need to compensate for reduced income levels arising from the economic downturn / recession and significant reductions in Government funding, a desire to continue to address the Council's priorities / issues identified by Members and at the same time to seek continuous improvement in service delivery.

In addition, there remains a degree of uncertainty in a number of areas including the impact of the changes to council tax support and other welfare reforms on council tax and rent income, future local authority pay settlements, the potential for interest rate changes, the future local government finance settlements and the level of future business rates income.

A summary of all the budget proposals is shown in the table below. The summary Revenue Budget for 2016/17, appears at **Appendix E**. A summary of the resulting budgets over the 3 year period appears at **Appendix G.**

Summary	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Estimated Net Cost of Services	**8,032**	**8,085**	**7,348**
Proposed Policy Changes / Additional Costs Identified **(Detailed at Appendix C) (Rounded)**	**452**	**269**	**776**
Final Recharge & Inflationary Adjustments (after Policy Changes inclusion)	(24)	(23)	(23)
Net Expenditure	8,460	8,331	8,101
Financing: RSG	(1,210)	(771)	(494)
Collection Fund Surplus (Council Tax)	(82)	-	-
Collection Fund Deficit (Business Rates)	560	-	-
Tariff Payable	10,640	10,849	11,169
Non Domestic Ratepayers	(13,262)	(13,648)	(13,427)
Council Tax Income	(3,381)	(3,490)	(3,623)
Gross Financing	(6,735)	(7,060)	(6,375)
Surplus(-) / Deficit	1,725	1,271	1,726
Balances Remaining (-) / Overdrawn	(3,605)	(2,334)	(608)

Per Council, 24th February 2015	(2,544)	(505)	-

HOUSING REVENUE ACCOUNT

Technical Adjustments

The 2015/16 approved budget has been used as a base to which amendments have been made reflecting the impact of technical adjustments. The impact of the policy led changes, will be added to this figure to produce the HRA budget for 2016/17.

The following table illustrates the current position before the effect of policy led changes:

Technical Adjustments	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Base Budget	3,072	138	(247)	(360)	(337)
Committee Decisions	(3,283)	(238)	(89)	347	-
Inflation	91	128	132	149	153
Other	197	(322)	(200)	(510)	(103)
Pay Adjustments	94	47	44	37	57
Revised charges for non-general fund activities	(33)	-	-	-	-
Total / Revised Base Budget	138	(247)	(360)	(337)	(230)

Revisions have been made to the 2015/16 base budget in order to produce an adjusted base for 2016/17 and forecast base for 2017/18 onwards. These changes, known as technical adjustments, are largely beyond the control of the Council and have been calculated to take account of:

- virements approved since the base budget was set;
- the removal of non-recurring budgets from the base;
- the effect of inflation;
- changes in payroll costs and annual payroll increments;
- changes in expenditure and income following decisions made by the Council;
- other changes outside the control of the Council such as changes in insurance costs, reduction in grant income and the impact of the HRA determinations which are set annually by Central Government; and
- The 'Zero base budgeting' review of income levels.

and are summarised in **Appendix F2**.

Proposals

The proposed policy changes for inclusion in the base budget for the next 5 years are detailed at **Appendix C** and are highlighted below:

Policy Changes Identified	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Reduction in Social housing rents by 1% a year for four years from 2016/17	638	1317	2039	2759	2808
Rents for Supported Accommodation frozen at 2015/16 levels	(14)	(14)	(14)	(14)	(14)
Introduction of Service Charges from 1 April 2016 including appointment of a Service Charges Officer	(416)	(416)	(416)	(416)	(416)
Reduced Contribution to Regeneration Reserve necessitated by reduced rental income	-	-	-	(2,000)	(2,000)
Total New Items / Amendments	**208**	**887**	**1,609**	**329**	**378**

The proposals will mean that balances will remain above the approved minimum level of £0.5m over the 5 year period.

Summary	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Estimated Net (Surplus) / Deficit	138	(247)	(360)	(337)	(230)
Proposed Policy Changes / Additional Costs Identified	208	887	1,609	329	378
Final Recharge & Inflationary Adjustments (after Policy Changes inclusion)	22	22	22	22	22
Surplus (-) / Deficit	368	662	1,271	14	170
Balances Remaining (-) / Overdrawn	(2,992)	(2,330)	(1,059)	(1,045)	(875)

Per Council, 24th February 2015	(1,304)	(1,229)	(1,403)	(1,403)	-

Indicating a Housing Revenue Account (HRA) balances of £0.8m over the next 5 years (Minimum recommended balances are currently £0.5m).

However this includes contributions to Capital Spend of £4.1m over 3 years (£6.9m over the next 5 years) and the Regeneration Reserve of £4.6m over 3 years (£5.4m over 5 years) - resulting in balances of £2m over 3 years (£2.4m over 5 years).

There is still a degree of uncertainty over the future financial position of the HRA arising from:

- Finalisation of the costs (following tender) / income associated with the regeneration / redevelopment schemes – to inform the likely need from the Regeneration reserve;

- The impact of restructuring following Supporting People funding reductions;

- The effect of service charges implementation;

- Results of ongoing structural surveys e.g. High Rise;

- The impact of Welfare Benefit Reform on rent collection levels – limited so far but further measures are to be rolled out (e.g. Universal Credit);

- The effect of the reduction in Social housing rents announced in the Summer Budget 2015 – rents are to be reduced by 1% a year for four years from 2016/17, requiring local authorities and housing associations to make savings and will mean a reduction in HRA rent income of c.£600k p.a. each year for 4 years (cumulative) due to the 1% reduction and as the planned inflationary increases of c.3% p.a. will also not be made;

- The impact that Social tenants with household incomes of at least £40k in London and at least £30k elsewhere, will have to pay a market or near market rent. Local authorities will have to repay the rent subsidy that they recover from high income tenants to the Exchequer;

- Any impact of the sale of high value council housing scheme;

- Future impact of the Government's increased discounts to promote right to buy sales on housing stock numbers and associated income levels – 50 sales p.a. have been assumed in future years. There is also still uncertainty over retained receipt levels (pending further Government guidance) and spending plans.

Rent Restructuring

The introduction of rent restructuring in April 2003 required the Council to calculate rents in accordance with a formula on a property by property basis and account separately for rental payments and payments which are for services (for example grounds maintenance, upkeep of communal areas, caretaking) within the total amounts charged.

This framework removed the flexibility to independently set rent levels from Social Landlords and replaced it with a fixed formula (RPI plus 0.5% plus £2.00) based on the value of the property and local incomes.

The aim of the framework was to ensure that by a pre-set date all social landlord rents have reached a 'target rent' for each property that will reflect the quality of accommodation and levels of local earnings. In achieving this target rent councils were also annually set a "limit rent" which restricted the level of rent increase in any one year.

Housing rents were increased in accordance with the Rent Restructuring Framework for 2014/15. However, from 2015/16, Councils could decide locally at what level to increase rents. Government Guidance suggested an increase of CPI plus 1%, however, the Council agreed to vary this level, and applied the formula CPI plus 1% plus £2 (capped at formula rent) ***for 2015/16 only***, to generate additional funding to support increased maintenance costs and the regeneration of key housing areas within the Borough.

However, under Benefit regulations and circulars issued by the DWP, the Rent Rebate Subsidy Limitation scheme penalises the Council should the average rent be above the notified limit rent. The guidance on rent increases stated a CPI + 1% increase which, when applied to the 2014/15 limit rent, gave a limit rent for 2015/16 of £82.56 which when compared to the actual rent for 2015/16 of £81.51 meant no loss of Housing Benefit subsidy grant.

The effect of the reduction in Social Housing Rents announced in the Summer Budget 2015 means that rents are to be reduced by 1% a year for four years from 2016/17 and will mean a reduction in HRA rent income of c.£600k p.a. each year for 4 years (cumulative) due to the 1% reduction and as the planned inflationary increases of c.3% p.a. will also not be made.

Following various articles in the professional press, particularly reports from National Housing Federation (NHF) in January 2016; DCLG sent an update to Local Authorities on 8th February 2016. The Governments note set out further detail in relation to the sale of high value vacant housing (detailed in the Housing & Planning Bill) and further clarification with regard to the 1% reduction in social rents for 4 years (2016-2020).

The Government have now announced that it will put in place a one-year exemption for all supported accommodation whilst they review this area of supported accommodation. The exact definition of what is 'supported accommodation' is to be detailed in regulations not yet available or drafted. In the interim and to offer some clarity the Government have identified a range of accommodation which would benefit from the exclusion - for Tamworth this includes its sheltered housing and supported accommodation for young people – totalling 385 units of council owned stock.

The Government is still drafting the regulations and will be reviewing the rent standard to ensure comprehensive coverage, this is unlikely to be concluded before April 4th 2016. Until then the Government has referred LA's to the Housing our Ageing population: Panel for innovation report, as well as to rent guidance and amendments allowing for a 10% increase above social rents for supported accommodation.

The Governments expectation is that rents will not increase by more than CPI + 1% where the exemption is applied.

It is proposed to freeze Rents for Supported Accommodation at 2015/16 levels.

Balances

The forecast level of balances at 31st March 2016 is £3.36m. The impact on balances of the adjustments outlined in this report would be as follows:

Balances	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Proposed Withdrawal from / Addition to (-) Balances	368	662	1,271	14	170
Balances Remaining (-) / Overdrawn	(2,992)	(2,330)	(1,059)	(1,045)	(875)

This would mean that closing balances, over the 5 year period, would be over the approved minimum level of £0.5m.

The analysis at **Appendix D** details the overall Housing Revenue Account budget resulting from the recommendations contained within this report.

CAPITAL PROGRAMME 2016/17 to 2020/21

Capital Programme

Following a review of the Capital Programme approved by Council on 24th February 2015, a revised programme has been formulated including additional schemes which have been put forward for inclusion.

Each scheme has been assessed with regard to:

- the contribution its delivery makes towards the achievement of the Council's corporate priorities;
- the achievement of Government priorities and grant or other funding availability;
- the benefits in terms of the contribution to the Council's Corporate Objectives and compliance with the Corporate Capital Strategy requirements of:

    1. Invest to save
    2. Maintenance of services and assets
    3. Protection of income streams
    4. Avoidance of cost.

The current de-minimus for capital expenditure is £10k per capital scheme.

General Fund

It is estimated that approximately £8.014m (excluding the £0.5m approved minimum balance) will be needed during the period to 2018/19 for future capital spending (including the usable capital receipts generated from the sale of council housing). Potential prudential borrowing of £1.185m for the Cultural Quarter is included (should sufficient capital receipts not be available). A surplus over 3 years of £312k is highlighted. Details of the proposed capital programme are shown in **Appendix I.**

In the coming year the Council expects to work closely with its partners in the proposed West Midlands Combined Authority to start delivering the Devolution Deal agreed with the Government. This is estimated to bring additional capital investment in excess of £8 billion over ten years across the West Midlands and associated LEP areas. This will require new ways of delivering capital investment involving a variety of mechanisms appropriate to each investment programme. It is possible that some of the capital investment will be delivered by the West Midlands Districts. The Council may need to use prudential borrowing to fulfil its agreed part of this.

The capital programme has been reviewed and updated:

a)	**Technology Replacement**
	Rolling annual budget of £60k has been included until 2018/19 (the provisional programme included £60k p.a. from 2016/17); However, it may be more cost effective for purchases to be made before 31st March 2016 – should that be the case it is recommended that the spend be brought forward together with the associated budget.

b)	**Air Conditioning**

An additional scheme has been included - £32k in 2016/17. Significantly increased reliance on ICT has resulted in a commitment to ongoing, large scale upgrade and maintenance to the TBC infrastructure, in line with agreed device lifecycles. In order to support the provision of this infrastructure, the computer suite needs continued investment, specifically the replacement of the air conditioning solution. Without a functioning system, the server infrastructure will become unstable and will impact on application availability across the organisation.

c)	**Backup Solution**

An additional scheme has been included - £15k in 2016/17. The current backup solution has been installed for 8 years and the reliability and stability of the hardware has started to degrade. The tapes used are also becoming obsolete and require replacing every twelve months to ensure good quality backups. Whilst much of the data created by the organisation is replicated off-site, the operating systems, applications and UNIX based data has a continued requirement to be backed up to tape. However, it may be more cost effective for purchases to be made before 31st March 2016 – should that be the case it is recommended that the spend be brought forward together with the associated budget.

d)	**Disabled Facilities Grants**

Rolling annual budget of £250k has been included. No changes have been made.

e)	**CCTV Camera Renewals**

Required for the rolling replacement of cameras, £15k p.a. - subject to funding constraints.

f)	**Street Lighting**

An additional scheme has been included – with an annual spend required. The Council has its own stock of street lighting across the borough, mainly in housing areas and other communal parts such as play areas and car parks. The street lighting assets are inspected and maintained by Eon on behalf of the Council under the terms of Staffordshire County Council PFI contract with Eon. Eon have produced a replacement street lighting programme which spans 40 years and includes the replacement of all the lighting columns based on 'their life expectancy' (£42k in 2016/17) and a lighting head replacement programme based on providing more efficient low energy lighting heads (£11k in 2016/17).

g) Cultural Quarter

The scheme budgets have been revised in line with the report to Cabinet on 14th January 2016.

h) Castle Mercian Trail (Budget currently within 2015/16 Programme)

A revised scheme, with a net cost to the Council of £125k, has been included to redevelop the top floor of the Castle to create a new exhibition focusing on Saxon Tamworth and the Staffordshire Hoard. Tamworth Castle will develop an exhibition that will include the display of more pieces from the Staffordshire Hoard along with artefacts relating to the history of Saxon Tamworth.

i) Gateways

An increased budget has been included – part funded by SCC and Section 106 funds with a net cost of £70k p.a. for the Council. Phase 1A in 2016/17 of £400k (Riverdrive to Ventura Park), phase 2 over 3 years from 2016/17 of £1.034m (Train Station to Town Centre).

j) Contingency

A £50k contingency budget will be required for 2016/17 – to be re-profiled from the unspent 2015/16 budget.

Housing

The proposed 5 year Housing Capital Programme is attached at **Appendix J**.

It is estimated that approximately £52.734m (excluding the £0.5m approved minimum balance) will be needed during the period to 2020/21 for future capital spending (including revenue contributions to Capital Spend from the HRA of £4.1m over 3 years (£6.9m over the next 5 years) and the Regeneration Reserve of £4.6m over 3 years (£5.4m over 5 years) & additional borrowing of £7.2m – the 'headroom' in line with the HRA Government debt cap is £11.3m) - resulting in balances of £2m over 3 years (£2.4m over 5 years).

The capital programme has been reviewed (saving £2m over 4 years when compared to the provisional programme) and updated to include the new year 5 costs – with costs then smoothed over the new 5 year planning period. In addition, certain demand led schemes together with the Redevelopment of Garage Sites and Other Acquisitions have been reviewed and updated to reflect current trends:

a) Gas Central Heating Upgrades and Renewals

The budget has been reduced by £335k over 4 years in line with current demand.

b) Energy Efficiency Improvements

The programme has been reduced to the 3 years (remaining at the £50k level) needed for the ERDF funding bid.

c) Fencing / Boundary Walls

The budget of £30k p.a. has been removed with any spend to be met from the revenue budget.

d) Windows and Door Renewals

The programme has been smoothed – saving £235k over 4 years.

e) Neighbourhood Regeneration

The previous General Estate Works demand led budget has been retained at £200k for 2016/17 only (previously £200k p.a.) – pending a review of requirements over the term of the Business Plan period.

f) Contingency

The £100k p.a. budget has been removed - A £100k contingency budget will be required for 2016/17 – to be re-profiled from the unspent 2015/16 budget.

g) Regeneration Schemes

The budgets for Redevelopment of garage sites and other acquisitions have been updated to reflect available resources.

Appendix C

Policy Changes Summary

DIRECTORATE	Sheet No.	Budget Changes 16/17 £'000	Budget Changes 17/18 £'000	Budget Changes 18/19 £'000
Chief Executive		-	-	-
Executive Director Corporate Services		-	-	-
Director of Finance	1	185.72	(183.90)	506.60
Director of Technology & Corporate Programmes		-	-	-
Solicitor to the Council		-	-	-
Director of Transformation & Corporate Performance		-	-	-
Director of Communities, Planning & Partnerships	2	44.00	0.50	0.50
Director of Housing & Health		-	-	-
Director of Assets & Environment	3	222.65	-	-
Total		**452.37**	**(183.40)**	**507.10**
Cumulative Cost / (Saving)		**452.37**	**268.97**	**776.07**

	Sheet No.	Budget Changes 16/17 £'000	Budget Changes 17/18 £'000	Budget Changes 18/19 £'000	Budget Changes 19/20 £'000	Budget Changes 20/21 £'000
Housing Revenue Account	4	208.00	679.00	722.00	(1,280.00)	49.00
Total		**208.00**	**679.00**	**722.00**	**(1,280.00)**	**49.00**
Cumulative Cost / (Saving)		208.00	887.00	1,609.00	329.00	378.00

Policy Changes Summary Staffing Implications

DIRECTORATE	Sheet No.	Budget Changes 16/17 £'000	Budget Changes 17/18 £'000	Budget Changes 18/19 £'000
Chief Executive				
Executive Director Corporate Services		-	-	-
Director of Finance	**1**	-	-	-
Director of Technology & Corporate Programmes		-	-	-
Solicitor to the Council		-	-	-
Director of Transformation & Corporate Performance		-	-	-
Director of Communities, Planning & Partnerships	**2**	1.0	-	-
Director of Housing & Health		-	-	-
Director of Assets & Environment	**3**	-	-	-
TOTAL		**1.0**	**-**	**-**

	Sheet No.	Budget Changes 16/17 £'000	Budget Changes 17/18 £'000	Budget Changes 18/19 £'000	Budget Changes 19/20 £'000	Budget Changes 20/21 £'000
Housing Revenue Account	**4**	1.0	-	-	-	-
TOTAL		**1.0**	**-**	**-**	**-**	**-**

16/17 Budget Process - Policy Changes

Sheet 1

DIRECTOR OF FINANCE

Item No		Proposal/(Existing Budget)	Implications	Budget Change 16/17 £'000	Budget Change 17/18 £'000	Budget Change 18/19 £'000
DF1	OTHER	Corporate Finance - General Contingency	Contingency budget to allow for 'in year' decisions to be made by Cabinet and to provide for any potential further reductions in income as a result of the financial climate	100.00	(100.00)	
DF2	OTHER	Contribution to / from Transformation Reserve			(360.00)	660.00
DF3	OTHER	West Midlands Combined Authority (WMCA) - contribution towards set up costs	At the meeting of the WMCA programme Board on 13 November 2015, it was agreed that Non-Constituent Authorities contribute £10k towards the budget for the 2015/16 financial year of £2.1 million to fund the setting up of the Combined Authority with a further £25k for 2016/17.	25.00	(25.00)	
DF4	CORP	Business Rates Levy payment	Estimated levy based on NNDR1 forecasts	(21.55)	189.33	(164.30)
DF5	CORP	Business Rates Section 31 Grant Income	New Burdens funding for Government scheme to reduce business rates charges	82.27	25.77	10.90
DF6	VFM	Cultural Quarter - Potential Prudential Borrowing Financing Costs	It was approved by Cabinet on 14th January 2016 that, as part of the budget setting process, they underwriting the gap in funding for the project which would need to be met from the potential capital receipt from the sale of the former golf course or from prudential borrowing. Should borrowing be required then this will impact on the revenue budget relating to interest and debt repayment costs (c.£86k p.a.).		86.00	
		Total New Items / Amendments		**185.72**	**(183.90)**	**506.60**

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	16/17 FTE	17/18 FTE	18/19 FTE
		TOTAL		-	-	-

16/17 Budget Process - Policy Changes

Sheet 2

DIRECTOR COMMUNITIES, PLANNING & PARTNERSHIPS

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				16/17 £'000	17/18 £'000	18/19 £'000
CPP1	OTHER	It is proposed to extend funding for a project officer (for 3 years) that would be dedicated to managing the projects for growth	In 13/14 two budgets were approved to procure specialist knowledge and skills and to fund an officer post in relation to managing projects for growth and regeneration for a period of 3 years (ending 15/16). Given the success of the officer and budget in progressing projects and achieving significant potential capital receipt, it is proposed to extend these budgets for a further 3 years. The annual budget for procuring specialist knowledge and skills is £10,000	44.00	0.50	0.50
CPP2	CORP	Revenue Implications from Capital Programme	Costs of Cultural Quarter Project no longer considered as Capital	124.30	(124.30)	
CPP3	CORP	Revenue Implications from Capital Programme	HLF Funding for cost of Cultural Quarter no longer considered Capital	(124.30)	124.30	
		Total New Items / Amendments		**44.00**	**0.50**	**0.50**

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	16/17 FTE	17/18 FTE	18/19 FTE
CPP1		It is proposed to extend funding for a project officer (for 3 years) that would be dedicated to managing the projects for growth	As above	1.0		
		TOTAL		**1.0**	**-**	**-**

16/17 Budget Process - Policy Changes

Sheet 3

DIRECTOR ASSETS & ENVIRONMENTAL SERVICES

Item No		Proposal/(Existing Budget)	Implications	Budget Change 16/17 £'000	Budget Change 17/18 £'000	Budget Change 18/19 £'000
AE1	OTHER	Agile Working Project - Deferral of receipt of projected income	Marmion House Rental Income budget - reversal of planned income from letting of space. Marketting of property has seen no interest and current markets suggest that there is unlikely to be interest in the medium term.This is despite regional marketting.	74.75		
AE2	OTHER	Agile Working Project - Deferral of receipt of projected income	Reduced income from service charges 3rd floor. Inability to let vacant space will mean that additional income from service charges will not be realised.	27.50		
AE3	OTHER	Loss of income at Marmion House	Marrmion House Rental Income budget - SCC/SSOTP vacate premises on 2nd floor 3rd quarter 2015/16. Space has been marketted but with no interest and no prospect of interest in the medium term. Also impacts on service charges.	18.00		
AE4	OTHER	Loss of income at Marmion House	Reduced income from service charges 2nd floor. Inability to let vacant space will mean that additional income from service charges will not be realised.	22.50		
AE5	OTHER	Revenue savings from closing non operational floors	Reduction in various costs such as lighhting costs.	(0.10)		
AE6	OTHER	Proposal to investigate replacement of the aging operational fleet of Council vehicles. These vehicles cover operational areas within Streetscene, Cemeteries, Arboricultural Services and Housing Caretakers The current vehicle contract was awarded in 2007 for 5 years with annual extension clauses and is now at its full extent. The contract provides 23 vehicles across four service areas with a full maintenance service included.	In order to continue delivery of these services we need to replace all vehicles. The existing revenue budget has been sufficient to fund these vehicles for the past eight years however it is anticipated that these prices will increase due to the time period since they were last reviewed, therefore we are seeking an additional £30,000 of revenue budget to ensure that there is no shortfall which prohibits the procurement process. Should the current revenue budget be sufficient to facilitate the procurement of these vehicles then the £30,000 will be returned	30.00		
AE7	OTHER	Waste Management Contingency	Reistatement of Contingency budget pending finalisation of costs associated with changes to SCC waste management arrangements	50.00		
		Total New Items / Amendments		**222.65**	**-**	**-**

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	16/17 FTE	17/18 FTE	18/19 FTE
		TOTAL		-	-	-

16/17 Budget Process - Policy Changes

Sheet 4

HOUSING REVENUE ACCOUNT

Item No		Proposal/(Existing Budget)	Implications	Budget Change 16/17 £'000	Budget Change 17/18 £'000	Budget Change 18/19 £'000	Budget Change 19/20 £'000	Budget Change 20/21 £'000
HRA1	STAT	Reduction in Social housing rents by 1% a year for four years from 2016/17	One of the announcements made as part of the Summer Budget 2015 was that Local Authorities and Registered Providers will be required to reduce Social housing rents by 1% a year for four years from 2016/17, requiring local authorities and housing associations to make savings - initial estimates have been prepared for inclusion pending receipt of the detailed regulations and guidance from DCLG	638.00	679.00	722.00	720.00	49.00
HRA2		Rents for Supported Accommodation frozen at 2015/16 levels	The Government have now announced a one-year exemption for all supported accommodation from the 1% rent reduction	(14.00)				
HRA3	SAV	Introduction of Service Charges from 1 April 2016 including appointment of a Service Charges Officer	Cabinet on 9 July 2015 approved the introduction of Service Charges to tenants and leaseholders in the Council's own stock - indicative estimates have been prepared for inclusion pending final calculations of the charges to be made for 2016/17	(416.00)				
HRA4	CORP	Reduced Contribution to Regeneration Reserve necessitated by reduced rental income	Reduced contribution following revised estimates following from the 1% rent reduction				(2,000.00)	
		Total New Items / Amendments		**208.00**	**679.00**	**722.00**	**(1,280.00)**	**49.00**

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	16/17 FTE	17/18 FTE	18/19 FTE	19/20 FTE	20/21 FTE
HRA3		Introduction of Service Charges from 1 April 2016 including appointment of a Service Charges Officer	Officer required to administer Service Charges	1.0	-	-	-	-
		TOTAL		1.0	-	-	-	-

Appendix D

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2016/17

	Base Budget 15/16 £	Technical Adjustments £	Policy Changes £	Budget 16/17 £	Budget 17/18 £	Budget 18/19 £	Budget 19/20 £	Budget 20/21 £
Income								
Dwelling Rents	(18,202,140)	(99,940)	624,000	(17,678,080)	(17,621,730)	(17,777,560)	(17,552,810)	(17,503,810)
Non-Dwelling Rents	(355,530)	(16,930)	-	(372,460)	(381,280)	(390,320)	(399,590)	(409,090)
Charges for Services and Facilities	(373,760)	50,500	-	(323,260)	(324,370)	(325,510)	(326,680)	(327,880)
Contributions Towards Expenditure	(1,608,200)	(26,210)	-	(1,634,410)	(1,635,150)	(1,635,900)	(1,636,710)	(1,637,540)
Subtotal	**(20,539,630)**	**(92,580)**	**624,000**	**(20,008,210)**	**(19,962,530)**	**(20,129,290)**	**(19,915,790)**	**(19,878,320)**
Expenditure								
Repairs and Maintenance	4,136,040	58,310	-	4,194,350	4,297,220	4,409,050	4,534,790	4,666,220
Supervision and Management	6,274,860	(144,230)	(416,000)	5,714,630	5,791,320	5,866,240	5,937,910	6,026,640
Rents, Rates, Taxes and Other Charges	30,530	950	-	31,480	31,910	32,340	32,810	33,290
Increase in Provision for Bad Debts	470,000	-	-	470,000	470,000	470,000	470,000	470,000
Housing Subsidy Payable	-	-	-	-	-	-	-	-
Depreciation and impairment of non-current assets	4,459,260	(3,360)	-	4,455,900	4,455,900	4,455,900	4,455,900	4,455,900
Debt Management Costs	17,690	130	-	17,820	17,230	17,310	17,310	17,310
Subtotal	**15,388,380**	**(88,200)**	**(416,000)**	**14,884,180**	**15,063,580**	**15,250,840**	**15,448,720**	**15,669,360**
Net cost of HRA Services per Authority I&E	**(5,151,250)**	**(180,780)**	**208,000**	**(5,124,030)**	**(4,898,950)**	**(4,878,450)**	**(4,467,070)**	**(4,208,960)**
Corporate and Democratic Core	4,360	3,690	-	8,050	8,250	8,460	8,690	8,930
Net Cost of HRA Services	**(5,146,890)**	**(177,090)**	**208,000**	**(5,115,980)**	**(4,890,700)**	**(4,869,990)**	**(4,458,380)**	**(4,200,030)**
Interest Payable and Similar Charges	2,997,070	(114,320)	-	2,882,750	2,891,770	2,993,970	2,993,970	2,993,970
Amortisation of Premiums	-	-	-	-	-	-	-	-
Interest Receivable and Similar Income	(152,060)	49,060	-	(103,000)	(143,840)	(108,260)	(276,800)	(379,820)
Surplus/ Deficit for the year	**(2,301,880)**	**(242,350)**	**208,000**	**(2,336,230)**	**(2,142,770)**	**(1,984,280)**	**(1,741,210)**	**(1,585,880)**

Statement of Movement on the HRA Balance

	Base Budget 15/16 £	Technical Adjustments £	Policy Changes £	Budget 16/17 £	Budget 17/18 £	Budget 18/19 £	Budget 19/20 £	Budget 20/21 £
Surplus or Deficit for the year	**(2,301,880)**	(242,350)	208,000	**(2,336,230)**	**(2,142,770)**	**(1,984,280)**	**(1,741,210)**	**(1,585,880)**
Additional Items required to be taken into account:								
Capital Expenditure funded by the HRA	5,374,240	(2,669,910)	-	2,704,330	2,804,330	3,254,330	1,754,330	1,754,330
(Increase)/ Decrease in HRA Balances	**3,072,360**	**(2,912,260)**	**208,000**	**368,100**	**661,560**	**1,270,050**	**13,120**	**168,450**

Appendix E

General Fund Summary Revenue Budget for 2016/17

Figures exclude internal recharges which have no bottom line impact.	**Base Budget 2015/16 £**	**Technical Adjustments £**	**Policy Changes £**	**Budget 2016/17 £**
Chief Executive	161,180	4,350	-	165,530
Executive Director Corporate Services	349,940	42,000	-	391,940
Director of Finance	(703,460)	(259,170)	185,720	(776,910)
Director of Technology & Corporate Programmes	879,940	21,790	-	901,730
Solicitor to the Council	551,070	18,290	-	569,360
Director of Transformation & Corporate Performance	897,090	(19,230)	-	877,860
Director of Communities, Planning & Partnerships	2,214,690	(26,080)	44,000	2,232,610
Director of Housing & Health	912,190	20,190	-	932,380
Director of Assets & Environment	3,201,000	(258,330)	222,650	3,165,320
Total Cost of Services	**8,463,640**	**(456,190)**	**452,370**	**8,459,820**
Transfer to / (from) Balances	(145,682)	(1,579,124)	-	(1,724,806)
Revenue Support Grant	(1,607,554)	397,951	-	(1,209,603)
Retained Business Rates	(13,181,129)	(81,141)	-	(13,262,270)
Less: Tariff payable	10,552,019	87,933	-	10,639,952
Collection Fund Surplus (Council Tax)	(81,670)	(226)	-	(81,896)
Collection Fund Surplus (Business Rates)	(728,023)	1,288,048	-	560,025
Council Tax Requirement	(3,271,601)	342,749	(452,370)	(3,381,222)

Appendix F1

General Fund Technical Adjustments 2016/17 (before Policy Changes)

Figures exclude internal recharges which have no bottom line impact	Budget 2015/16	Technical Adjustments Virements £	Committee Decisions £	Inflation £	Other £	Pay Adjustments £	External Recharge Changes (non-GF Activities) £	Total Adjustments £	Total Adjusted Base 2016/17
Chief Executive	161,180	-	-	80	390	4,230	(100)	4,600	**165,780**
Executive Director Corporate Services	349,950	-	(20,000)	(2,350)	23,040	51,960	(10,430)	42,220	**392,170**
Director of Finance	(703,450)	-	(189,870)	1,860	(104,750)	34,460	400	(257,900)	**(961,350)**
Director of Technology & Corporate Programmes	879,940	-	-	9,260	(15,090)	7,420	22,400	23,990	**903,930**
Solicitor to the Council	551,080	-	-	4,110	4,210	13,140	(3,010)	18,450	**569,530**
Director of Transformation & Corporate Performance	897,080	(3,000)	(49,760)	1,560	4,870	27,310	3,330	(15,690)	**881,390**
Director of Communities, Planning & Partnerships	2,214,690	-	(5,470)	(4,200)	(73,700)	57,290	-	(26,080)	**2,188,610**
Director of Housing & Health	912,190	-	-	160	(14,380)	12,190	20,920	18,890	**931,080**
Director of Assets & Environment	3,200,980	3,000	(137,250)	4,730	(252,210)	111,290	29,980	(240,460)	**2,960,520**
Grand Total	**8,463,640**	**-**	**(402,350)**	**15,210**	**(427,620)**	**319,290**	**63,490**	**(431,980)**	**8,031,660**

*** Base budget figures before recharge & inflationary adjustments after inclusion of Policy Changes.**

Appendix F2

HRA Technical Adjustments 2016/17 (before Policy Changes)

		Technical Adjustments							
Figures exclude internal recharges which have no bottom line impact	Budget 2015/16	Virements £	Committee Decisions £	Inflation £	Other £	Pay Adjustments £	External Recharge Changes (non-GF Activities) £	Total Adjustments £	Total Adjusted Base 2016/17
Chief Executive's Office									
Director of Housing & Health	4,150,410	-	-	16,930	(60,060)	90,290	(30,250)	16,910	**4,167,320**
Director of Assets & Environment	(12,800)	-	-	110	550	3,360	(2,460)	1,560	**(11,240)**
HRA Summary	(1,065,250)	-	(3,283,080)	74,330	256,420	-	-	(2,952,330)	**(4,017,580)**
Grand Total	**3,072,360**	**-**	**(3,283,080)**	**91,370**	**196,910**	**93,650**	**(32,710)**	**(2,933,860)**	**138,500**

*** Base budget figures before recharge & inflationary adjustments after inclusion of Policy Changes.**

Appendix G

General Fund 3 Year Revenue Budget Summary

Figures exclude internal recharges which have no bottom line impact.	**Base Budget 2015/16 £**	**Budget 2016/17 £**	**Budget 2017/18 £**	**Budget 2018/19 £**
Chief Executive	161,180	165,530	167,880	170,250
Executive Director Corporate Services	349,940	391,940	393,840	395,200
Director of Finance	(703,460)	(776,910)	(1,102,140)	(1,247,290)
Director of Technology & Corporate Programmes	879,940	901,730	924,030	920,030
Solicitor to the Council	551,070	569,360	578,980	587,630
Director of Transformation & Corporate Performance	897,090	877,860	892,860	887,600
Director of Communities, Planning & Partnerships	2,214,690	2,232,610	2,306,400	2,178,630
Director of Housing & Health	912,190	932,380	940,690	947,600
Director of Assets & Environment	3,201,000	3,165,320	3,228,310	3,261,800
Total Cost of Services	**8,463,640**	**8,459,820**	**8,330,850**	**8,101,450**
Transfer to / (from) Balances	(145,682)	(1,724,806)	(1,270,574)	(1,726,532)
Revenue Support Grant	(1,607,554)	(1,209,603)	(770,996)	(493,964)
Retained Business Rates	(13,181,129)	(13,262,270)	(13,648,160)	(13,426,704)
Less: Tariff payable	10,552,019	10,639,952	10,849,222	11,169,283
Business Rates S.31 Grants				
Business Rates Levy				
Collection Fund Surplus (Council Tax)	(81,670)	(81,896)	-	-
Collection Fund Surplus (Business Rates)	(728,023)	560,025	-	-
Council Tax Requirement	(3,271,601)	(3,381,222)	(3,490,342)	(3,623,533)

Appendix H

Council Tax levels at each band for 2016/17

	Tamworth Council Tax 2015/16	Tamworth Borough Council	* Staffordshire County Council	* Office of the Police & Crime Commissioner (OPCC) Staffordshire	* Stoke on Trent and Staffordshire Fire and Rescue Authority	**Total 2016/17**	Total Council Tax 2015/16
	£	£	£	£	£	**£**	£
Demand/Precept on Collection Fund		3,381,222	22,757,129	3,712,758	1,470,178	**31,321,287**	
Council Tax Band							
A	105.73	*107.83*	*725.77*	*118.41*	*46.89*	**998.90**	968.30
B	123.36	*125.81*	*846.73*	*138.14*	*54.70*	**1,165.38**	1,129.69
C	140.98	*143.78*	*967.69*	*157.88*	*62.52*	**1,331.87**	1,291.08
D	**158.60**	*161.75*	*1,088.65*	*177.61*	*70.33*	**1,498.34**	1,452.45
E	193.84	*197.69*	*1,330.57*	*217.08*	*85.96*	**1,831.30**	1,775.21
F	229.09	*233.64*	*1,572.49*	*256.55*	*101.59*	**2,164.27**	2,097.99
G	264.33	*269.58*	*1,814.42*	*296.02*	*117.22*	**2,497.24**	2,420.75
H	317.20	*323.50*	*2,177.30*	*355.22*	*140.66*	**2,996.68**	2,904.90
% increase	1.99%	1.99%	3.95%	0.00%	1.99%	3.16%	1.71%

** To be confirmed:*

Staffordshire County Council Cabinet, 3rd February 2016– Strategic Plan and Medium Term Financial Strategy 2016-21

Staffordshire Police and Crime Panel 1st February 2016 - Police and Crime Commissioner for Staffordshire - Revenue and Capital Budget 2016/17

Stoke on Trent and Staffordshire Fire and Rescue Authority – 2016/17 Revenue Budget and Council Tax Setting, 16th February 2016

Appendix I

General Fund Capital Programme 2016/17 – 2018/19

General Fund Capital Programme	2016/17 £	2017/18 £	2018/19 £	Total £
Technology Replacement	60,000	60,000	60,000	**180,000**
Air Conditioning	32,000	-	-	**32,000**
Backup Solution	15,000	-	-	**15,000**
Subtotal	**107,000**	**60,000**	**60,000**	**227,000**
Private Sector Grants - Disabled Facilities Grants	250,000	250,000	250,000	**750,000**
CCTV Camera Renewals	15,000	15,000	15,000	**45,000**
Street Lighting	52,900	2,600	3,100	**58,600**
Cultural Quarter – Assembly Rooms	2,135,300	1,943,790	-	**4,079,090**
Cultural Quarter – Business Enterprise Centre	575,900	-	-	**575,900**
Cultural Quarter – Carnegie Centre	10,000	-	-	**10,000**
Cultural Quarter – Public Realm Works	-	-	229,040	**229,040**
Castle Mercian Trail	605,250	-	-	**605,250**
Gateways	784,000	370,000	280,000	**1,434,000**
Subtotal	**4,428,350**	**2,581,390**	**777,140**	**7,786,880**
Total General Fund Capital	**4,535,350**	**2,641,390**	**837,140**	**8,013,880**
Proposed Financing:				
Grants - Disabled Facilities	224,000	224,000	224,000	**672,000**
Section 106 Receipts	284,000	100,000	-	**384,000**
General Fund Capital Receipts	461,200	214,800	7,500	**683,500**
Sale of Council House Receipts	90,000	103,300	166,600	**359,900**
General Fund Capital Reserve	-	20,200	-	**20,200**
Grants - Assembly Rooms (HLF)	579,090	-	-	**579,090**
Grants - Mercian Trail (HLF)	470,250	-	-	**470,250**
Grants - Assembly Rooms (SLGF)	1,961,810	798,260	-	**2,760,070**
Grants - Gateways (SLGF)	390,000	200,000	210,000	**800,000**
Grants - SCC (Assembly Rooms / Gateways)	40,000	-	-	**40,000**
Public Contributions (Assembly Rooms)	25,000	25,000	-	**50,000**
Other Contributions	10,000	-	-	**10,000**
Unsupported Borrowing	-	955,830	229,040	**1,184,870**
Total	**4,535,350**	**2,641,390**	**837,140**	**8,013,880**

Appendix J

Housing Capital Programme 2016/17 – 2020/21

Housing Revenue Account Capital Programme	**2016/17 £**	**2017/18 £**	**2018/19 £**	**2019/20 £**	**2020/21 £**	**TOTAL £**
Structural Works	100,000	100,000	100,000	100,000	100,000	**500,000**
Bathroom Renewals	774,250	795,540	817,420	839,900	850,000	**4,077,110**
Gas Central Heating Upgrades and Renewals	536,250	514,000	420,000	550,000	460,000	**2,480,250**
Kitchen Renewals	919,430	944,710	970,690	997,380	900,000	**4,732,210**
High Rise Lift Renewal	342,460	349,990	-	-	-	**692,450**
Fire Upgrades to Flats	265,460	-	-	-	-	**265,460**
Energy Efficiency Improvements	50,000	50,000	-	-	-	**100,000**
Major Roofing Overhaul and Renewals	156,770	161,080	165,510	170,060	174,310	**827,730**
Window and Door Renewals	250,000	250,000	250,000	250,000	250,000	**1,250,000**
Works to High Rise Flats	525,000	525,000	525,000	-	-	**1,575,000**
Disabled Facilities Adaptations	307,500	315,960	324,650	333,580	341,920	**1,623,610**
Capital Salaries	169,310	173,040	176,840	180,730	180,000	**879,920**
CDM Fees	10,170	5,000	5,000	5,000	5,000	**30,170**
Regeneration Schemes						
Tinkers Green	2,162,050	6,640,000	1,634,000	-	-	**10,436,050**
Kerria	848,150	1,810,640	3,805,250	-	-	**6,464,040**
Redevelopment of Garage sites	1,600,000	3,000,000	3,000,000	3,000,000	3,000,000	**13,600,000**
Other acquisitions	1,000,000	500,000	500,000	500,000	500,000	**3,000,000**
Neighbourhood Regeneration	200,000	-	-	-	-	**200,000**
Total HRA Capital	**10,216,800**	**16,134,960**	**12,694,360**	**6,926,650**	**6,761,230**	**52,734,000**
Proposed Financing:						
Major Repairs Reserve	4,406,600	4,184,320	4,855,110	3,426,650	3,256,230	**20,128,910**
HRA Capital Receipts	868,200	250,000	955,000	1,000,000	1,500,000	**4,573,200**
Regeneration Revenue Reserves	679,000	5,008,640	3,516,300	1,300,000	1,355,000	**11,858,940**
Capital Receipts from Add Council House Sales	780,000	650,000	450,000	300,000	300,000	**2,480,000**
Regeneration Reserve	1,241,000	1,070,000	2,917,950	900,000	350,000	**6,478,950**
Unsupported Borrowing	2,242,000	4,972,000	-	-	-	**7,214,000**
Total	**10,216,800**	**16,134,960**	**12,694,360**	**6,926,650**	**6,761,230**	**52,734,000**

Appendix K

Main Assumptions

Inflationary Factors	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Inflation Rate - Pay Awards	1.00%	1.00%	1.00%	1.00%	2.00%
National Insurance	10.50%	10.50%	10.50%	10.50%	10.50%
Superannuation	16.50%	16.50%	16.50%	16.50%	16.50%
Inflation Rate (RPI)	2.00%	2.50%	2.50%	2.75%	2.75%
Inflation Rate (CPI)	1.53%	1.93%	2.00%	2.00%	2.00%
Investment Rates	1.25%	1.75%	2.00%	2.75%	3.00%
Base Interest Rates	0.75%	1.25%	1.75%	2.00%	2.00%

1. Pay award – it has been assumed that public sector pay will be capped at 1% for 4 years from 2016/17, in line with announcement in the Summer Budget 2015, and is estimated to mirror the Government's inflation target of 2% thereafter.

2. Overall Fees and Charges will rise generally by 2.5% annually except where a proposal has otherwise been made (car parking charges, corporate & industrial property rental income, statutory set planning fees, leisure fees);

3. Revised estimates for rent allowance / rent rebate subsidy levels have been included;

4. Changes to the level of recharges between funds has been included;

5. A reduction in Revenue Support Grant levels to zero by 2020 following the Chancellor's Summer Budget in July 2015 (which indicated further £18bn cuts to public service spending by 2019/20). The outcome from the Comprehensive Spending Review was published on 25th November 2015 with the impact for the Council confirmed by DCLG as part of the *Local Government Finance Settlement* provisional announcement in December 2015.

6. Continuation of the New Homes Bonus scheme – including additional receipts from new developments (including Anker Valley and the Former Golf Course Site);

7. Increased investment income returns due to higher balances including the anticipated capital receipt from the sale of the Former Golf Course;

8. The major changes to the previously approved policy changes are included within this forecast – Directors were issued with the provisional information in August to review, confirm & resubmit by the end of September;

9. Annual year-on-year pension cost increases of c.2% via the pension lump sum element for past liabilities have been included (for 3 years following SCC triennial review in 2013).

10. Reduction in rent levels by 1% due to the Summer Budget announcement & current indications that sales of council houses will be approximately 50 per annum.

Appendix L

Sensitivity Analysis (3 years)

	Risk	2016/17 £'000	2017/18 £'000	2018/19 £'000
		Potential Budgetary Effect		
Pay Award / National Insurance (GF)				
Impact +/- 0.5% Variance £'000	L	43	87	132
Budget Impact over 1 year	L	43		
Budget Impact over 3 years	M	262		
Pay Award / National Insurance (HRA)				
Impact +/- 0.5% Variance £'000	L	13	27	41
Budget Impact over 1 years	L	13		
Budget Impact over 3 years	L	81		

Subject to negotiation for Local Government pay (including any protection for low paid employees)

	Risk	2016/17 £'000	2017/18 £'000	2018/19 £'000
Pension Costs				
Impact +/- 0.5% Variance £'000	L	0	58	116
Budget Impact over 1 year	L	0		
Budget Impact over 3 years	L	174		

3 year agreement in place from 2014/15 - subject to stock market & membership changes

	Risk	2016/17 £'000	2017/18 £'000	2018/19 £'000
Council Tax				
Impact on Council Tax income £'000		33	51	70
Budget Impact over 1 year	L	33		
Budget Impact over 3 years	L	154		
Inflation / CPI				
Impact +/- 0.5% Variance £'000	L	46	94	143
Budget Impact over 1 year	L	46		
Budget Impact over 3 years	M	283		
Government Grant				
Impact +/- 1.0% Variance £'000	L	39	72	99
Budget Impact over 1 year	L	39		
Budget Impact over 3 years	M	210		
Investment Interest				
Impact +/- 0.5% Variance £'000	L	145	315	511
Budget Impact over 1 year	L	145		
Budget Impact over 3 years	H	971		
Key Income Streams (GF)				
Impact +/- 0.5% Variance £'000	L	6	12	20
Budget Impact over 1 year	L	6		
Budget Impact over 3 years	L	38		

		Potential Budgetary Effect		
	Risk	2016/17	2017/18	2018/19
		£'000	£'000	£'000
Key Income Streams (HRA)				
Impact +/- 0.5% Variance £'000	L	88	177	265
Budget Impact over 1 years	L	88		
Budget Impact over 3 years	H	530		
New Homes Bonus				
Impact +/- 10% Variance £'000	L	65	129	191
Budget Impact over 1 year	L	65		
Budget Impact over 3 years	M	385		
Business Rates				
Impact +/- 10% Variance £'000	L	67	134	201
Budget Impact over 1 year	L	67		
Budget Impact over 3 years	M	402		

Appendix M

Contingencies

Contingencies 2016/17 - 2020/21

Revenue	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Specific Earmarked &	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
General					
General Fund					
Specific Contingencies					
Vacancy Allowance	50	50	50		
Waste Management	50	50	50		
General Contingency	100	-	42		
Total General Fund Revenue	**200**	**100**	**142**		
Housing Revenue Account					
HRA - General Contingency	100	100	100	100	100
Total HRA Revenue	**100**	**100**	**100**	**100**	**100**

*** The 2015/16 Capital Contingency budget of £50k for both GF & HRA is to be reprofiled to 2016/17.**

APPENDIX N

TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2016/17

Purpose

To comply with the requirement of the Council's Treasury Management Policy in reporting to Council the proposed strategy for the forthcoming year and the Local Government Act 2003 with the reporting of the Prudential Indicators.

Executive Summary

The Local Government Act 2003 requires the Council to produce prudential indicators in line with the Prudential Code.

This report outlines the Council's prudential indicators for 2016/17 – 2018/19 and sets out the expected Treasury operations for this period. This report and associated tables fulfil the statutory requirement of the Local Government Act 2003 by:

- Reporting the prudential indicators as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities;
- Setting the Council's Minimum Revenue Provision (MRP) Policy, which defines how the Council will pay for capital assets through revenue contributions each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
- Setting the Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management;
- Adopting the Council's Treasury Management Policy Statement as recommended within the CIPFA Code of Practice 2011;
- Setting the Investment Strategy (in accordance with the Department for Communities and Local Government (DCLG) investment guidance); and
- Affirming the effective management and responsibility for the control of risk and clearly identify our appetite for risk. The Council's risk appetite is low in order to give priority to **S**ecurity, **L**iquidity then **Y**ield (or return on investments).

The main issues for Members to note are:

1. The CIPFA Code of Practice and associated Guidance Notes adopted by the Council in December 2012 requires that:

   - Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support;

- There needs to be, at a minimum, a mid year review of Treasury Management Strategy and Performance. The review is intended to highlight any areas of concern that have arisen since the original strategy was approved;

- Each Council must delegate the role of scrutiny of Treasury Management Strategy and policies to a specific named body – the Audit and Governance Committee has been given this role;

- Members should be provided with access to relevant training – Members are also personally responsible for ensuring they have the necessary skills and training.

  The aim is for all Members to have ownership and understanding when making decisions on Treasury Management matters.

2. With regard to Counterparty selection for investment, rather than adopt a Lowest Common Denominator (LCD) methodology, a broader counterparty evaluation criteria is used by Capita Asset Services (the Council's Treasury Management consultants). This methodology has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element – but in line with best practice/guidance also includes the following as overlays: -

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

   The adoption of the above approach helps mitigate risks associated with the investment portfolio.

3. As agreed in past Treasury Management Strategies, it is proposed that the Council (following consultation with our advisors) will not use the approach suggested by CIPFA of using the lowest common denominator rating from all three rating agencies to determine creditworthy counterparties (as Moodys are currently very much more aggressive in giving low ratings than the other two agencies). The use of the Lowest Common Denominator rating would give the Council a very restrictive/unworkable counterparty list which would result in a disproportional (high) level of investment in a few institutions which would as a consequence increase investment risk with the investments being held with a limited number of counterparties which would be counter-productive in not allowing the sharing / spreading of risk over a higher number of counterparties. This would therefore be unworkable and leave the Council with few banks/institutions on its approved lending list and would increase investment risk.

   The Capita Asset Services creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue importance to just one agency's ratings.

   The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies.

In addition to the removal of implied support, new methodologies take account of additional factors, such as regulatory capital levels. In some cases, these factors have “netted” each other off, to leave underlying ratings either unchanged or with little change. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody’s) Financial Strength rating withdrawn by the agency.

In keeping with the agencies’ new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor’s, this has been a change to the use of Fitch and Moody’s ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies’ new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this Authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ‘AA –‘. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

4. The proposed Counterparty limits for 2016/17 have been increased, reflecting higher average investment balances available at present – but still in line with Capita’s suggested 20% maximum of investment balances deposited with any one institution.

The approach taken in item 2 and 3 above allows officers charged with the Treasury responsibilities to have the most appropriate/market assessment to aid the investment decision making process and provides a broad methodology for identifying High Credit Quality counterparties.

Equalities Implications

There are no equalities implications arising from the report.

Legal Implications

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

Resource and Value for Money Implications

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

Risk Implications

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

A Glossary of terms utilised within the report can be found at **ANNEX 8**.

Report Author

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Background Papers:-	***Budget & Medium Term Financial Strategy 2016/17***
	Mid-year Treasury Report 2015/16 Council, 15/12/15
	Annual Treasury Report 2014/15 Council, 30/07/15
	Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Statement 2015/16 Council 24/02/2015
	Treasury Management Training slides, 4th February 2015 & 7th October 2015
	CIPFA Code of Practice on Treasury Management in Public Services 2011
	DCLG Guidance on Local Government Investments March 2010
	Local Government Act 2003
	Treasury Management Practices 2016/17 (Operational Detail)

1. Introduction

1.1 The Treasury Management Policy Statement

This Council defines its Treasury Management activities as:

- The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

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

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

- 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.

1.2 Reporting Requirements

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

1.2.1 Prudential and Treasury Indicators and Treasury Strategy (Reported – February) - The first, and most important report covers:

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

1.2.2 A Mid Year Treasury Management Report (Reported by December) – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and report whether the Treasury Strategy is meeting the strategy or whether any policies require revision.

1.2.3 An Annual Treasury Report (Reported by September) – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A description of the Prudential Indicators is attached at **ANNEX 10**.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

a) Capital Issues

- the Capital Plans and the Prudential Indicators (2.1, 2.2);
- the Minimum Revenue Provision (MRP) policy (2.3).

b) Treasury Management Issues

- the current treasury position (2.4);
- treasury indicators which will limit the treasury risk and activities of the Council (3.2);
- prospects for interest rates (3.3);
- the borrowing strategy (3.4);
- policy on borrowing in advance of need (3.5);
- debt rescheduling (3.6);
- the investment strategy (4.1);
- creditworthiness policy (4.2); and
- policy on use of external service providers (4.10).

These elements cover the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Detailed Treasury Management training was provided in February 2014 and February 2015 and most recently in October 2015, but will also be provided as and when required.

The training needs of Treasury Management Officers are regularly reviewed as part of the performance development and management process.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services, Treasury Solutions 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 and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. The Capital Prudential Indicators 2016/17 – 2018/19

The Council's Capital Expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist member's overview and confirm capital expenditure plans.

2.1 Capital Expenditure. This prudential Indicator is a summary of the Council's Capital Expenditure plans, both those agreed previously, and those forming part of this budget cycle:

Capital Expenditure	2014/15 Actual £m	2015/16 Projected Outturn* £m	2016/17 Estimate** £m	2017/18 Estimate £m	2018/19 Estimate £m
Non-HRA (GF)	0.581	1.127	4.535	2.641	0.837
HRA	4.972	6.374	10.217	16.135	12.695
Total	**5.553**	**7.501**	**14.752**	**18.776**	**13.532**

** Projected at Period 9*

*** excludes projected slippage from 2015/16*

HRA – Housing Revenue Account / GF – General Fund

The above financing need, excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Financing (GF / HRA - Use of reserves)	2014/15 Actual £m	2015/16 Projected Outturn £m	2016/17 Estimate** £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Receipts	0.193	0.642	2.199	1.218	1.579
Capital Grants	0.240	0.454	3.220	1.247	0.434
Capital Reserves	0.635	2.413	1.920	6.099	6.434
Revenue Reserves	4.411	3.923	4.691	4.284	4.856
Revenue Contributions	0.074	0.069	0.480	-	-
Net financing need for the year	**-**	**-**	**2.242**	**5.928**	**0.229**
Total	**5.553**	**7.501**	**14.752**	**18.776**	**13.532**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

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

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below:

CFR Projections	2014/15 Actual £m	2015/16 Revised Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Financing Requirement					
CFR – Non Housing	1.241	0.700	0.665	1.588	1.746
CFR - Housing	68.041	68.041	70.283	75.255	75.255
Total CFR	**69.282**	**68.741**	**70.948**	**76.843**	**77.001**
Movement in CFR*	**(0.070)**	**(0.541)**	**2.207**	**5.895**	**0.158**

Movement in CFR represented by					
Net financing need for the year (above)	-	-	2.242	5.928	0.229
Less: MRP/VRP and other financing movements **	(0.070	(0.541)	(0.035)	(0.033)	(0.071)
Movement in CFR	**(0.070)**	**(0.541)**	**2.207**	**5.895**	**0.158**

* CFR 2013/14 £69.352m

** Potential additional MRP arising from prudential borrowing contingency

2.3 Minimum Revenue Provision (MRP) Policy Statement

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

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

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

- **Existing practice -** MRP will follow the existing practice outlined in former DCLG regulations (option 1);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) 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 (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

No revenue charge is currently required for the HRA. However under HRA reform the HRA is required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for five years from 2012/13.

2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2014/15 Actual £m	2015/16 Revised Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Fund Balances/Reserves	24.946	19.048	17.874	13.186	7.791
Capital Receipts	3.898	4.583	11.338	19.074	26.649
Provisions*	4.773	4.704	4.619	4.619	4.619
Capital Grants	0.048	0.048	-	-	-
Total Core Funds	**33.665**	**28.383**	**33.831**	**36.879**	**39.059**
Working Capital**	2.911	7.409	5.010	7.237	10.075
(Under)/Over Borrowing	(4.222)	(3.681)	(3.646)	(3.613)	(3.542)
Expected Investments	**32.354**	**32.111**	**35.195**	**40.503**	**45.592**

* Including provision for bad debts

** Working capital balances shown are estimated year end; these may be higher mid year.

2.5 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream.

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

Ratio of financing costs to net revenue stream	2014/15 Actual %	2015/16 Revised Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Non-HRA	(1.19)	(2.97)	(4.91)	(8.00)	(11.54)
HRA	22.55	34.28	34.48	34.42	34.96

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

2.7 Incremental impact of capital investment decisions on Council Tax.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

Incremental impact of capital investment decisions on the Band D Council Tax

Incremental Impact on Council Tax	2014/15 Actual £:p	2015/16 Estimate £:p	2016/17 Estimate £:p	2017/18 Estimate £:p	2018/19 Estimate £:p
Band D	0.16	(0.27)	0.76	2.85	1.53

2.8 Estimates of the incremental impact of capital investment decisions on housing rent levels.

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

Incremental Impact	2014/15 Actual £:p	2015/16 Estimate £:p	2016/17 Estimate £:p	2017/18 Estimate £:p	2018/19 Estimate £:p
Weekly housing rent levels	(0.04)	0.02	0.00	0.04	0.01

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls. The additional borrowing planned for 2016/17 and 2017/18 is reflected above.

Housing Revenue Account Debt Ratios

HRA Debt to Revenue Ratio	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA Debt* £m	68.041	68.041	70.283	75.255	75.255
HRA Revenues £m	22.412	21.065	21.100	21.775	22.628
Ratio of Debt to Revenues %	304%	323%	333%	346%	333%

HRA Debt per Dwelling	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA Debt* £m	68.041	68.041	70.283	75.255	75.255
Number of HRA Dwellings	4,470	4,397	4,347	4,297	4,197
Debt per Dwelling £	15,222	15,474	16,168	17,513	17,931

***** The HRA's notional debt borrowing requirement

As the level of debt increases compared to revenue income, risk increases.

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The Treasury Management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's Treasury Portfolio position at 31st March 2015, with forward projections are summarised below. The table shows the actual external debt (the Treasury Management Operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Treasury Portfolio	2014/15 Actual £m	2015/16 Revised Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
External Debt					
Debt at 1st April	65.060	65.060	65.060	67.302	73.230
Expected change in Debt	-	-	2.242	5.928	0.229
Actual gross debt at 31st March	**65.060**	**65.060**	**67.302**	**73.230**	**73.459**
The Capital Financing Requirement	**69.282**	**68.741**	**70.948**	**76.843**	**77.001**
Under / (over) borrowing	**4.222**	**3.681**	**3.646**	**3.613**	**3.542**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. A key indicator is that the Council needs to ensure that its total borrowing, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 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 Executive Director Corporate Services (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 – compliance with the Prudential Indicator is highlighted in the table below.

3.2. Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary - This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational Boundary	2015/16 Revised Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Debt	72.268	73.268	75.510	80.482
Total	**72.268**	**73.268**	**75.510**	**80.482**

The Authorised Limit for external borrowing - A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following Authorised Limit:

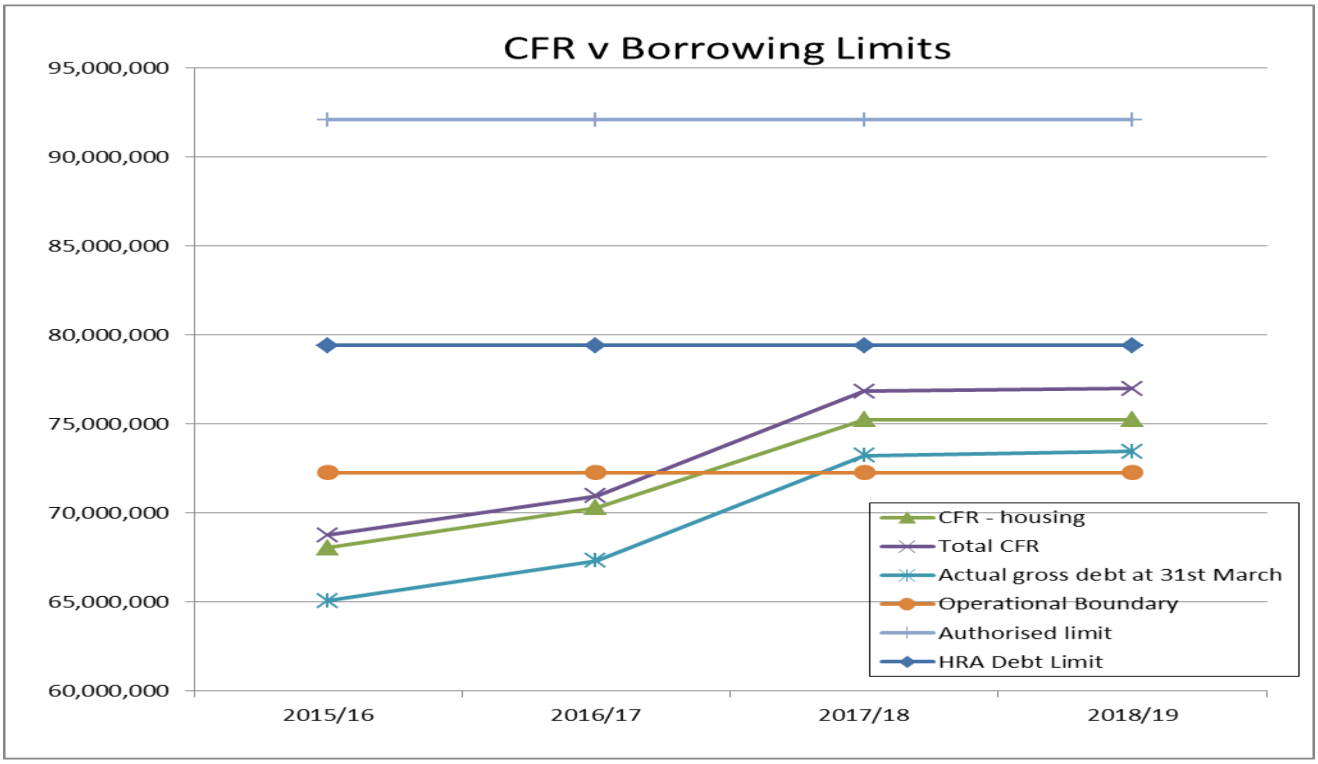
Authorised limit	**2015/16 Revised Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Debt*	89.112	89.112	89.112	89.112
Other long term liabilities	3.000	3.000	3.000	3.000
Total	**92.112**	**92.112**	**92.112**	**92.112**

* *Includes £79.407m HRA Self Financing Cap – Including initial Headroom of £11.344m at 31/03/2012*

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	**2015/16 Revised Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
HRA Debt Cap	79.407	79.407	79.407	79.407
HRA CFR	68.041	70.283	75.255	75.255
HRA Headroom	11.366	9.124	4.152	4.152

This information summarised graphically below:



3.3. Prospects for Interest Rates

A more detailed interest rate view and economic commentary is at **ANNEX 2**.

The Council has appointed Capita Asset Services as its Treasury Advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2016	0.50	2.00	2.60	3.40	3.20
Jun 2016	0.50	2.10	2.70	3.40	3.20
Sep 2016	0.50	2.20	2.80	3.50	3.30
Dec 2016	0.75	2.30	2.90	3.60	3.40
Mar 2017	0.75	2.40	3.00	3.70	3.50
Jun 2017	1.00	2.50	3.10	3.70	3.60
Sep 2017	1.00	2.60	3.20	3.80	3.70
Dec 2017	1.25	2.70	3.30	3.90	3.80
Mar 2018	1.25	2.80	3.40	4.00	3.90
Jun 2018	1.50	2.90	3.50	4.00	3.90
Sep 2018	1.50	3.00	3.60	4.10	4.00
Dec 2018	1.75	3.10	3.60	4.10	4.00
Mar 2019	1.75	3.20	3.70	4.10	4.00

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the Monetary Policy Committee (MPC) will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its Quantitive Easing (QE) programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

In summary, the central view is that;

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets.

Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Use of internal funds is a more efficient use of resources as borrowing rates are significantly higher than investment returns. However, as and when resources are depleted or utilised, the opportunity to use internal balances will decrease and interest charges will increase.

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Director of Finance 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 the anticipated rate to US tapering of asset purchases, or 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 are still lower than they will be in the next few years.

Any decisions will be reported to Council at the next available opportunity.

Treasury Management - Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Interest rate exposure	2016/17 £m Upper	2017/18 £m Upper	2018/19 £m Upper
Limits on fixed interest rates based on net debt	53.515	57.094	61.184
Limits on variable interest rates based on net debt	6.556	6.718	7.080
Limits on fixed interest rates:			
• ***Debt only***	65.563	67.184	70.795
• ***Investments only***	20.558	17.760	16.061
Limits on variable interest rates			
• ***Debt only***	6.556	6.718	7.080
• ***Investments only***	8.223	7.104	6.424

Maturity structure of fixed interest rate borrowing 2016/17		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
50 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2016/17		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
50 years and above	0%	100%

3.5 Policy on Borrowing in Advance of Need

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

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

3.6. Debt Rescheduling

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 (premiums incurred).

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).

Consideration will also be given to identifying 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.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

4. Annual Investment Strategy

Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of 'AA -'. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.1 Investment Policy

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

In accordance with the above guidance from the Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To 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.

Investment instruments identified for use in the financial year are listed in **ANNEX 3** under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's Treasury Management Ppractices – schedules.

4.2 Creditworthiness Policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

* *Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see* ***ANNEX 3****.*

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

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

All credit ratings will be monitored on a daily basis/as and when notified*.* The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service:

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

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

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

4.3 Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of 'AA –' or higher from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **ANNEX 4**. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

Capita Asset Services also recommends that no more than 20% of the Council's investment portfolio should be placed with an individual counterparty, in order to spread risk. The approach at the Council is to set monetary limits of up to **£7m** with individual institutions, which equates approximately to Capita's recommendation (based on average investment levels of approximately £35m).

4.4 Investment Strategy

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

Investment Returns Expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from Q 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

Year	Up to 100 Days %
2016/17	0.60
2017/18	1.25
2018/19	1.75
2019/20	2.25
2020/21	2.50
2021/22	2.75
2022/23	2.75
2023/24	3.00
Later Years	3.00

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

Investment Treasury Indicator and Limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£m 2.000	£m 2.000	£m 2.000

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to100 days) in order to benefit from the compounding of interest.

4.5 Icelandic Bank Investments

Glitnir - £2.55m partial repayment of our deposits was received on the 15th March 2012. The balance due to the Council is currently being held in Icelandic Krone (ISK) but release of these funds at par is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside Iceland.

£601k is currently held in escrow in Iceland earning annual interest at a rate of c.4%.

The Council and other residual creditors have recently contracted Bevan Brittain to monitor ongoing developments in Iceland in relation to possible changes that may effect our funds held in escrow and will provide written reports on the situation as it develops.

Heritable – In September 2015 the Council received a further distribution of £60k from the Administrators taking the total received to £1.475m against our claim of £1.505m, or a recovery of 98%.
There are currently proceedings underway regarding a parent guarentee of Heritable by LBI hlf. If there is no further distribution from the Heritable Administrators, the guarantee could result in potential compensation from LBI, which may result in a 100% recovery.

Kaupthing Singer & Friedlander – At the end of December 2015, the Council had received £2.620m against our claim of £3.175m. Latest estimates given by the administrator project a total recovery of 85% to 86.5% or approximately £2.699m to £2.746m, with a potential future distribution estimated for mid to late 2016.

4.6 Investment Risk Benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month LIBID.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.8 Scheme of delegation

Please see **ANNEX 5**.

4.9 Role of the Section 151 Officer

Please see **ANNEX 6.**

4.10 Policy on use of external service providers

Please see **ANNEX 7**. TMP 11

10. ANNEX

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ANNEX 1

Interest Rate Forecasts 2016 – 2019

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

Capita Asset Services Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

Economic Background

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- *Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.*
- *Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.*
- *Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.*

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

However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and ‘noflation’ was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

The Government’s revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 19 January 2016. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 4 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in January 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2017.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

<u>Specified and Non-Specified Investments</u>:

Specified Investments:

These investments are **sterling** denominated investments of **not more than one-year maturity,** meeting the minimum 'high' quality criteria where applicable. They are of relatively high security, high liquidity and are low risk assets where the possibility of loss of principal or investment income is small, they could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. The investments could be managed In-House or by Fund Managers.

These would include investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or Gilts with less than one year to maturity). To facilitate use of such instruments a Custodian account was opened during 2012/13 with King & Shaxson Ltd (a primary participant authorised to bid at Treasury bill tenders on behalf of investors regulated by the Financial Services Authority (FSA) and subject to its rules and guidance in their activities);
- A Local Authority, Parish Council or Community Council;
- Pooled investment vehicles or Collective Investment Schemes structured as Open Ended Investment Companies (OEIC's) such as Money Market Funds (MMF's) Enhanced Money Market Funds, Government Liquidity Funds, Enhanced Cash Funds, Bond Funds (but not Corporate Bonds) and Gilt Funds, that have a high credit quality and been awarded a high credit rating of AAA by Standard and Poor's, Moody's or Fitch rating agencies and a Low Long Term Volatility rating;
- A body that has a high credit quality and been awarded a high credit rating by a credit rating agency (such as a bank or building society) and complies with the Sector Credit Worthiness service;
- A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes and/or is part or wholly nationalised by that Government. Where these guarantees are in place and the government has an AA - sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

SPECIFIED INVESTMENTS	Minimum 'High' Credit Criteria	Limits
UK Government :- • Debt Management Agency Deposit Facility (DMADF) • Gilts • Treasury Bills	Defined by Regulation UK Treasury (AA-)	£7m
Bonds Issued by Multilateral Development Banks	AAA or Equivalent	£7m
Collective Investment Schemes structured as Open Ended Investment Companies (OEIC's):- • Government Liquidity Funds • Money Market Funds • Enhanced Money Market Funds (credit score of 1.25) • Enhanced Money Market Funds (credit score of 1.5) • Bond Funds • Gilt Funds	AAA (Moody's MR1, Fitch MMF and S&P M).	£7m

Term deposits :– Local Authorities	Defined by Regulation (Sec 23 of the 2003 act)	£7m
Term deposits and Callable deposits :– Banks and Building Societies	In accordance with Sector's Creditworthiness Service up to 'Orange'	£7m individual institutions £10m Group limit
UK Part Nationalised Banks	In accordance with Sector's Creditworthiness Service 'Blue'	£7m individual institutions £10m Group limit
Banks and Building Societies – Forward deals up to 1 year from arrangement to maturity	In accordance with Sector's Creditworthiness Service up to 'Orange' 'or 'Blue'	£7m

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Non-Specified Investments:

Non-specified investments are any other type of investment (i.e. not defined as Specified above) and could be managed In-House or by Fund Managers. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Ref	Non Specified Investment Categories	Credit Rating	Comment
1	**Supranational Bonds greater than 1 year to maturity** • **Multilateral development bank bonds** – These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). • **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AA-	Would not use in-house due to size of investment portfolio limiting benefit to the Council.
2	**UK Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (1) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA Sovereign Rated (1 Rating Agency) AA- Sovereign Rating (2 Rating Agencies)	Custodian Account held with King & Shaxson to trade on our behalf
3	**Certificates of Deposit** with credit rated deposit takers (Banks and Building Societies)	Capita Asset Services Minimum Credit Worthiness rating	Custodian Account held with King & Shaxson to trade on our behalf
4	**Term deposit with a body which has been nationalised/part nationalised** by high credit rated (sovereign rating AAA or AA-) countries and provided with a **Government issued guarantee** for wholesale deposits within specific timeframes.	AAA or AA- Sovereign Rated Capita Asset Services Credit Worthiness rating 'Blue'	Under the current criteria this applies in the UK to Royal Bank of Scotland Group
5	Government guarantee on ALL deposits by high credit rated (AAA sovereign rating non UK) countries.	AAA Sovereign Rated	Not in Use, currently restricting investments to UK only

Ref	Non Specified Investment Categories	Credit Rating	Comment
6	The **Council's Own Banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.	Out of range	Balances reviewed and minimised on daily basis
7	Any **Bank or Building Society** that has at minimum a long term credit rating of A-, a minimum short term credit rating of F1, or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	In accordance with Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services Credit Worthiness rating
8	**Callable Deposits** with a **Bank or Building Society** that has at minimum a long term credit rating of A-, a minimum short term credit rating of F1, or equivalent.	In accordance with Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services Credit Worthiness rating
9	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	N/A	Unlikely to use due to size of portfolio and high risk associated. Also requires additional approval as deemed as capital expenditure.
10	**Property Funds –** The use of these instruments can be deemed as capital expenditure and as such will be an application (spending) of capital resources**.** This authority will seek guidance on the status of any fund it may consider using.	N/A	Limits will be set based on levels of reserves and balances going forward and appropriate due diligence will be undertaken before investment of this type is considered.

Within categories 3, 4, and 5, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. All investments will be made in sterling to eliminate exchange rate risk.

The criteria are detailed in the table below and will be used in conjunction with Capita Asset Service's Creditworthiness service.

Counterparty Type (TBC's minimum credit ratings for approved lending list)	**Minimum Credit Criteria**	**Limits***	
Bank or Building Society (a minimum Long Term Credit Rating of AAA, a minimum short term credit rating of F1 (or equivalent))	Capita 'Yellow'	5 yrs	£7m
Bank or Building Society (a minimum Long Term Credit Rating of AA-, a minimum short term credit rating of F1 (or equivalent))	Capita 'Yellow'	4 yrs	£7m
Bank (a minimum Long Term Credit Rating of A-, a minimum short term credit rating of F1 (or equivalent))	Capita 'Yellow'	3 yrs	£7m
Banks Nationalised/Part nationalised by high credit rated (sovereign rating AAA or AA+) countries	Capita 'Blue' (UK)	Specified in Guarantee	£7m
Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries	Capita 'Blue'	Specified in Guarantee	£7m
The Council's own Banker - if it fails to meet basic criteria	n/a	Overnight	£2m
Building Society (a minimum Long Term Credit Rating of A-, a minimum short term credit rating of F1 (or equivalent /if applicable) AND assets > £4bn)	Capita 'Yellow'	3 yrs	£7m
Building Society (a Long Term Credit Rating of A- , a minimum short term credit rating of F1 (or equivalent/if applicable) AND assets < £4bn but > £1bn)	Capita 'Purple'	2 yrs	£7m
Group Limits - Maximum investments in Institutions within the same financial group	As above for individual investment	As above for individual investment	£10m
Territory Limits - Maximum investments in Institutions within the same Country (Approx 15% of investment programme) Non- UK	As above for individual investment	As above for individual investment	£5m
Territory Limits - Maximum investments in Institutions within the same Continent (Approx 30% of investment programme) Non UK	As above for individual investment	As above for individual investment	£10m

* Under current Capita Asset Services credit worthiness criteria, only institutions with a rating of 'Purple' or 'Yellow' are suggested as appropriate counterparties for investments over 1 year, with limit ranges of 2 years and 5 years respectively.

Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AA- or higher (lowest rating from all three rating agencies) and also have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

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

AA+

- Finland
- U.K.*
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

(Per Capita Asset Services Credit Rating List at 20/01/2016)

* At its meeting of the 15th September 2009, full Council approved a recommendation that;

'authorises the use of institutions currently supported by the UK Government should its Sovereign rating be downgraded below the current requirement for a 'AAA' rating by all three rating agencies'

this approval continues to form part of the strategy in 2016/17.

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on Treasury Management policies, practices and activities.
- approval of annual strategy.
- approval of/amendments to the organisation’s adopted clauses, Treasury Management Policy statement and Treasury Management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

(ii) Cabinet

- receiving and reviewing Treasury Management policy statement and Treasury Management practices and making recommendations to the full Council.
- receiving and reviewing regular monitoring reports and making recommendations to the full Council.
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee

- reviewing the Treasury Management policy and procedures and making recommendations to the Cabinet.
- receiving and reviewing regular monitoring (quarterly/half yearly) and making recommendations to the Cabinet.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

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TREASURY MANAGEMENT PRACTICES

The Treasury Management Practices document (TMP's) forms detailed operational procedures and processes for the Treasury Management function. This document can be found on the Council's Internet by following the following link;

http://www.tamworth.gov.uk/treasury-practices

and clicking on the TMP's folder.

The items below are summaries of the individual TMP's which the Council has to produce and adopt under the Treasury Code of Practice.

TMP1 : RISK MANAGEMENT

General Statement

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of Treasury Management risk; will report at least annually on the adequacy / suitability of the arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives. The reports will be in accordance with the procedures contained in TMP6.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its Treasury Management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and are detailed in the TMP Operational document.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.
It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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

1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

1.6 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its Treasury Management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its Treasury Management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, Council and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its Treasury Management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

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

The Council will therefore:-

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its Treasury Management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up Treasury Management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

Records will be maintained of all Treasury Management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated Treasury Management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation will seek to ensure that its stated Treasury Management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect its self from the effects of such fluctuations.

TMP2 : BEST VALUE AND PERFORMANCE MEASUREMENT

The Borough Council is committed to the pursuit of best value in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management Policy Statement.

The Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal, grant or subsidy incentives, and the scope for other potential improvements. The performance of the Treasury Management function will be measured using the criteria set out in the detailed TMP Operational document.

TMP3 : DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its Treasury Management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are set out in the detailed TMP Operational document.

TMP4 : APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its Treasury Management activities by employing only those instruments, methods and techniques are set out in the detailed TMP Operational document and within the limits and parameters defined in TMP1.

TMP5 : ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its Treasury Management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of Treasury Management responsibilities.

The principle, on which this will be based is the clear distinction between those charged with setting Treasury Management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of Treasury Management decisions and the audit and review of the Treasury Management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principals, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in Treasury Management, and the arrangements for absence cover. He will also ensure that at all times those engaged in Treasury Management will follow the policies and procedures set out. The present arrangements are set out in the detailed TMP Operational document.

The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are set out in the detailed TMP Operational document.
The delegations to the Section 151 Officer in respect of Treasury Management are set out in the detailed TMP Operational document. He will fulfil all such responsibilities in accordance with the Council's policy statement and TMP's and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP6 : REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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

As a minimum Cabinet and Council will receive:

- An annual report on the planned strategy to be pursued in the coming year and the reporting of Prudential Indicators.
- A mid-year review
- An annual report on the performance of the Treasury Management function including the performance against the Prudential Indicators, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's Treasury Management policy statement and TMP's.

Cabinet will receive regular monitoring reports on Treasury Management activities and risks.

The Audit and Governance Committee will have responsibility for the scrutiny of Treasury Management policies and practices.

The Treasury Management indicators will be considered together with the Treasury Management indicators in the Prudential Code as part of the budget approval process.
The present arrangements and the form of these reports are set out in the detailed TMP Operational document.

TMP7 : BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Section 151 Officer will prepare and Council will approve and, if necessary, from time to time will amend, an annual budget for Treasury Management, which will bring together all of the costs involved in running the Treasury Management function together with associated income. The matters to be included will at minimum be those required by statute or regulation, together, with such information as will demonstrate compliance with TMP1, TMP2 and TMP4.

The Section 151 Officer will exercise effective controls over this budget and report upon and recommend any changes required in accordance with TMP6.

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

TMP8 : CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purpose of monitoring compliance with TMP1. The present arrangements for preparing cash flow projections, and their form, are set out in the detailed TMP Operational document.

TMP9 : MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council will, therefore, maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that all staff involved are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are set out in the detailed TMP Operational document.

TMP10 : TRAINING AND QUALIFICATIONS

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

The Section 151 Officer will ensure that Council members tasked with Treasury Management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 : USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for the Treasury Management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of Treasury Management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. Terms of appointment will be properly agreed, documented and subject to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the detailed TMP Operational document.

TMP12 : CORPORATE GOVERNANCE

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

The Council has adopted and implemented the key recommendations of the Code. This, together with the other arrangements are set out in the detailed TMP Operational document and are considered vital to the achievement of proper governance in Treasury Management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Treasury Management Glossary of Terms

Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Capital Financing Requirement	The Council's underlying need for borrowing for a capital purpose.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	A specific kind of counterparty agreement which allows the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange for regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal.
Credit Rating	This is a scoring system that lenders issue organisations with, to determine how credit worthy they are.
Gilts	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period.
iTraxx	This is an index published by Markit who are a leading company in CDS pricing and valuation. The index is based on an equal weighting of the CDS spread of 25 European financial companies. Clients can use the iTraxx to see where an institution's CDS spread is relative to that of the market and judge its creditworthiness in that manner, as well as looking at the credit ratings.
Liquidity	An asset is perfectly liquid if one can trade immediately, at a price not worse than the uninformed expected value, the quantity one desires.
Long term	A period of one year or more.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.

Minimum Revenue Provision	Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision
Monetary Policy Committee (MPC)	Interest rates are set by the Bank's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met. Their primary target (as set by the Government) is to keep inflation at or around 2%.
Security	An investment instrument, issued by a corporation, government, or other organization which offers evidence of debt or equity.
Short Term	A period of 364 days or less
Supranational Bonds	A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered very safe and have a high credit rating.
Treasury Management	The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
Working Capital	Cash and other liquid assets needed to finance the everyday running of a business such as the payment of salaries and purchases.
Yield	The annual rate of return on an investment, expressed as a percentage.

ANNEX 9

ICELANDIC BANKING SITUATION AS AT 31/12/2015

	Deposit with;	Ref Number	Date Invested	Amount		%
1	GLITNIR	1696	10/10/2007	1,000,000		
	GLITNIR	1715	31/08/2007	1,000,000		
	GLITNIR	1754	14/12/2007	1,000,000		
	Total Principal			3,000,000		
	Estimated of Contractual or Interest due to point of administration (subject to currency exchange rate fluctuations)			155,000		
	Total of Claim			3,155,000		
	Repayments Received to date			(2,554,432)	*	*80.96*
	Outstanding at 31/12/2015			**600,568**	**	
	Estimated Remaining			**600,568**		

On the 15th March 2012, the Council received £2.554m being the majority of our deposits with the bank. The balance of our approved claim, equating to £587k, is being held in an interest bearing ESCROW account. The release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds until the date of final settlement, which is still unknown.

2	Heritable Bank	1802	12/09/2008	500,000		
	Heritable Bank	1803	15/09/2008	1,000,000		
	Total Principal			1,500,000		
	Interest due at point of administration 07/10/2008			5,127		
	Total of Claim			1,505,127		
	Repayments Received to date			(1,475,024)		*98.00*
	Outstanding at 31/12/2015			**30,103**		
	Estimated Remaining			**-**		

As at the end of September the Council had received £1.475m against our claim of £1.505m, a total recovery of 98%. Negociations are currently underway to finalise the affairs of Heritable and it is anticipated that a distribution of residual funds will be made over the next few months.

3	Singer & Friedlander	1716	31/08/2007	1,000,000		
	Singer & Friedlander	1740	31/10/2007	1,000,000		
	Singer & Friedlander	1746	14/01/2008	1,000,000		
	Total Principal			3,000,000		
	Interest due at point of administration 08/10/2008			175,256		
	Total of Claim			3,175,256		
	Repayments Received to date			(2,619,586)		*82.50*
	Outstanding at 31/12/2015			**555,670**		
	Estimated Remaining			**87,320**		

As at the end of September the Council had received £2.620m against our claim of £3.175m. Current estimates given by the Administrator project a total recovery of 85.25% or approximately £2.707m, with the majority of repayments estimated to be received by June 2016.

	Summary					
	Total Principal			7,500,000		
	Interest			335,383		
	Total of Claim			7,835,383		
	Repayments Received to date			(6,649,042)		*84.86*
	Outstanding at 31/12/2015			**1,186,341**		
	Estimated Remaining			**687,888**		

1 Registered Bank in Iceland - In Administration under Icelandic Law

2 & Registered Bank in UK - In Administration in UK by Ernst & Young

3 Under English Law

PRUDENTIAL INDICATORS – DEFINITIONS / INTERPRETATION

CIPFA's Prudential Code for Capital Finance requires local authorities to prepare Prudential Indicators of their intended capital spending plans for the forthcoming and future years. The indicators are intended to help the decision making process within an authority and must be approved by the full Council before the beginning of the financial year. The indicators are neither comparative statistics nor performance indicators. Different Councils will have different figures reflecting their history and local circumstances.

1. **Estimate of total capital expenditure to be incurred –** This summarises the Council's current plans for the total capital expenditure over the next 5 years. Details of individual schemes are contained within the capital estimate pages.

2. **Estimates of Capital Financing Summary** – Although the Prudential Code does not require this indicator, it is included so that the capital financing sources can be clearly identified.

3. **Estimated Ratio of financing costs to net revenue stream** - This indicator has been calculated as debt interest, borrowing refinancing costs, minimum revenue provision, depreciation for HRA and net of investment income and divided by the General Fund (GF) budget requirement for the GF element of costs and the total of HRA income for the HRA costs**.** For GF Account, the indicator has been calculated gross of government support in the form of RSG for the proportion of capital expenditure funded from supported level of borrowing.

4. **Incremental Impact on Band D Council Tax** – This represents debt charges i.e. the interest and Minimum Revenue Provision (Principal repayments) of all General Fund borrowing, gross of government support in the form of RSG. This indicator is calculated by calculating the debt charge based on the proposed capital programme and dividing the result by the tax base for Council Tax.

5. **Incremental Impact on average weekly housing rent** – For HRA capital programme, the proposed ALMO borrowing is 100% supported by government grant with the balance of the capital expenditure funded from the Major Repairs Reserve (Grant/Subsidy), revenue contributions and capital receipts and therefore will not impact the indicator for HRA.

6. **Capital Financing Requirement** – This represents the Council's underlying need to borrow to finance historic capital expenditure and is derived by aggregating specified items from the Council's balance sheet. The actual **net borrowing** is lower than this because of the reserve part of capital receipts accumulated until 31st March 2004.

7. **Actual Net Borrowing** –This is a key indicator and Section 3 of the Local Government Act 2003 requires the Council to ensure that over the medium term, the net borrowing (actual long term borrowing less temporary investments) does not exceed the sum of Capital Financing Requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

8. **Authorised Borrowing Limit for external debt** - This indicator represents the maximum amount the Council may borrow at any point in time in the year and has to be set at a level the Council considers is **prudent**. It allows for uncertain cash flow movements and borrowing in advance for future requirements. Although the Council does not currently have any finance lease liabilities, a limit has been separately identified for potential future leasing liabilities.

The recommended authorised limits for external debt are gross of investments and are consistent with the Council's current commitments, existing plans and the current treasury management policy and strategy. The authorised limit determined for 2016- 17 is the statutory limit determined under section 3(1) of the Local Government Act 2003.

9. **Operational Boundary for external debt** - The proposed operational boundary for external debt is calculated on the same estimates as the authorised limit but reflects estimates of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified.

10. **Treasury Management** – these indicators form part of the treasury management strategy and policy statement approved by the Council each year before the beginning of the financial year. The main indicators are:

(a) The adoption of **CIPFA Code of Practice for Treasury Management**, which the Council adopted before the current Prudential System was introduced.

(b) **Interest Rate Exposure** - The approved Treasury Policy Statement and Strategy contains upper and lower limits for fixed and variable interest rate exposure for net outstanding principal sums.

(c) **Maturity Structure of Borrowing** – The approved treasury management strategy also sets out the maturity structure of the Council's borrowing to ensure the Council is not exposed to risks of having to refinance large level of debt at a time in future when interest rates may be volatile or uncertain.

(d) **Investments longer than 364 days** – The approved treasury management strategy includes a limit of £2m for investments maturing beyond 364 days.