

NON-CONFIDENTIAL



Borough of Tamworth

17 February 2017

Dear Councillor

You are hereby summoned to attend a **meeting of the Council of this Borough** to be held on **TUESDAY, 21ST FEBRUARY, 2017** 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 2017/18 (Pages 1 - 120)**

Yours faithfully

A handwritten signature in black ink, appearing to be 'A. Oost', written over a circular stamp or mark.

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

21st February 2017

Report of the Leader of the Council

Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2017/18

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 2017/18;
 - Housing Revenue Account (HRA) Budget for 2017/18;
 - 3 Year General Fund Capital Programme (2017/20);
 - 5 Year HRA Capital Programme (2017/22);
 - 3 Year General Fund Medium Term Financial Strategy (MTFS) (2017/20);
and
 - 5 Year HRA Medium Term Financial Strategy (MTFS) (2017/22).

- 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 for 2017/18 (Appendix A);
2. the proposed revisions to Service Revenue Budgets (Policy Changes) (Appendix C);
3. the sum of £80,965 be applied from Council Tax Collection Fund surpluses in reducing the Council Tax demand in 2017/18 (Appendix E);
4. the sum of £338,112 be applied from Business Rates Collection Fund surpluses in 2017/18 (Appendix E);
5. that on 24th November 2016, the Cabinet calculated the Council Tax Base 2017/18 for the whole Council area as 21,093 [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 2017/18 is £3,517,258 (Appendix E);
7. the following amounts as calculated for the year 2017/18 in accordance with Sections 31 to 36 of the Act:
 - a. £53,723,148 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. £50,205,890 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. £3,517,258 being the amount by which the aggregate at 7(a) above exceeds the aggregate at 7(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. £166.75 being the amount at 7(c) above (Item R), all divided by Item T (at 5 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 2017/18 of £166.75 (an increase of £5.00 (3.09%) on the 2016/17 level of £161.75) 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 £1,562.01 at Band D for 2017/18 be noted (Appendix H);
10. the Council Tax levels at each band for 2017/18 (Appendix H);
11. the sum of £1,454,266 be transferred from General Fund Revenue Balances in 2017/18 (Appendix E);

12. the Summary General Fund Revenue Budget for 2017/18 (Appendix E);
13. the Provisional Budgets for 2018/19 to 2019/20, summarised at Appendix G, as the basis for future planning;
14. 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;
15. 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;
16. the proposed HRA Expenditure level of £15,178,750 for 2017/18 (Appendix D);
17. rents for Council House Tenants in General Accommodation for 2017/18 be reduced by an average of £0.86 per week (1%) to £85.29 (2016/17 £87.38), over a 48 week rent year;
18. rents for Council House Tenants in Supported Accommodation for 2017/18 be reduced by of 1%;
19. rents for Council House Tenants due for 52 weeks in 2017/18 be collected over 48 weeks;
20. the HRA deficit of £359,990 be financed through a transfer from Housing Revenue Account Balances in 2017/18 (Appendix D);
21. the proposed 3 year General Fund Capital Programme of £5.765m, as detailed in Appendix I to the report;
22. the proposed 5 year Housing Capital Programme of £50.557m, as detailed in Appendix J to the report;
23. 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;
24. the Treasury Management Strategy Statement, the Treasury Management Policy Statement, Minimum Revenue Provision Strategy and Annual Investment Statement 2017/18 (as detailed at Appendix N);
25. the Prudential and Treasury Indicators and Limits for 2017/18 to 2019/20 contained within Appendix N;
26. the adoption of the Treasury Management Practices contained within ANNEX 7; and
27. the detailed criteria of the Investment Strategy 2017/18 contained in the Treasury Management Strategy within ANNEX 3.

Executive Summary

The headline figures for 2017/18 are:

- A General Fund total cost of services of £9,623,240 an increase of £1,163,420 (13.8%) compared to 2016/17;
- A transfer of £1,454,266 from General Fund balances;
- The Band D Council Tax would be set at £166.75, an increase of £5 (3.09% - less than £0.10 per week) on the level from 2016/17 of £161.75;
- A General Fund Capital Programme of £5.765m for 3 years;
- a Housing Revenue Account (HRA) Expenditure level of £15,178,750 for 2017/18 (excluding interest & similar charges);
- A transfer of £359,990 from HRA balances;
- An average rent of £85.29 (in line with the Government's requirement to reduce rents by 1% p.a. for the next 4 years), which represents a reduction of £0.86 (1% on the current average rent of £87.38) and equates to £78.73 on an annualised 52 week basis;
- A Housing Capital Programme of £50.557m (including c.£31.4m relating to the Regeneration Projects) for 5 years.

Closing balances over 3 years for the General Fund (GF) are estimated at £0.5m, at the minimum approved level of £0.5m. The draft Budget and Medium Term Financial Strategy is based on a council tax increase of £5 (3.09%) for 2017/18 (the maximum permitted under the Government set limits to trigger a referendum is the greater of £5 or 2.0%) followed by increases of £5 p.a. thereafter & in line with statutory requirements.

The Summary HRA Revenue Budget for 2017/18 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 £3m (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 £0.695m available (the minimum approved level is £0.5m).

The Council's uncommitted Housing Capital Resources will effectively be reduced to £1m over 5 years (the approved minimum level is £0.5m).

Key Risks

- Impact of uncertain economic conditions, following the decision to leave the EU – there is a higher level of uncertainty than in previous budget setting processes. It is suggested that, given the uncertainty, there should be no knee jerk reactions – with a clear plan to focus on balancing the next 3 years’ budget position for the General Fund (5 years for the HRA);
- Achievement of the anticipated growth in business rates income – in line with the assumed baseline and tariff levels set;
- Uncertainty remains over the work progressing on the system for Councils to keep 100% of the business rates collected by 2020 (and the associated impact on the Council’s business rates income and associated baseline and tariff levels);
- Delivery of the planned Commercial Investment and Regeneration Strategy actions and associated improved investment returns of 5% p.a. arising from the investment of £24m from the capital receipt due to be received over the period 2016 – 2018 from the sale of the former golf course (to support the MTFs in the long term);
- Work is continuing on a number of actions to address the longer term financial position;
- Achievement of anticipated growth in new homes within the Borough and the associated dependency on the New Homes Bonus income to address / reduce the funding shortfall for the General Fund;
- Challenge to continue to achieve high collection rates for council tax, business rates and housing rents – in light of further austerity, economic conditions and uncertainty; and
- Finalisation of the Local Government Finance Settlement - the Parliamentary debate on the final local government finance settlement has been delayed and will take place shortly after recess ending 20th February 2017. This is later than usual due to pressure on parliamentary time

Background

The ***Vision*** for *our place* and *our communities* to be “perfectly placed” in order to take full advantage of every opportunity that leads to Tamworth being a ***‘better’*** place and its people having ***‘better’*** lives or the Council being a ***‘better’*** organisation has never been more relevant that it is right now.

Many of the challenges faced by the Council in recent years have had direct consequences for all three themes : People, Place and Organisation. It will come as no surprise therefore that the 3 Thematic Priorities established in 2016 will remain the focus of our plans, actions and resources for the plan period – 2017 to 2020.

Whilst the majority of these challenges are likely to remain – reductions in government funding; increased public demand; less capacity; similar challenges facing our partners – they are balanced to a large degree by the fact that this Council's commitment and determination to succeed remains as does the resilience and professionalism of the entire workforce.

Tamworth Borough Council is one small but classic example of why Local Government and its partners are the only Government Department to achieve the efficiency targets set by the Treasury since 2008...We saw it coming; we planned for it and we adopted an approach based upon resilience and sustainability.

What has changed is our attitude to the situation and our desire and ambition to improve it. Last year, the Council adopted a route-map designed to position the Council so it could be **Perfectly Placed** to take advantage of every opportunity it either created or identified.

“From Surviving To Thriving” set out a number of opportunities based upon the principle that by focusing upon the growth of the economy, both the “people” and the “place” would benefit. The Council remains committed to promoting and stimulating economic growth and regeneration; meeting our housing needs; creating a vibrant town centre economy and protecting those most vulnerable in our communities. To this end, we pledge to explore and invest in viable and sustainable methods of generating income and moving towards financial independence.

The foundations supporting these sustained successes can be attributed to strong political and executive leadership, having a detailed understanding of the issues and challenges facing our “people” and “place” and, more importantly, the plans, policies and resources with which to resolve them. The process by which the Council sets out its plans for dealing with these priorities and providing the resources and funding necessary forms the basis of the **Corporate Plan & Medium Term Financial Strategy** produced and reviewed annually.

It is this tried and tested approach that has enabled this Council to navigate its way through the recession, extended periods of austerity and the uncertainties and complexities brought about by ‘devolution’, elected Mayors, Combined Authorities et al. With many of the challenges of previous years still facing the Council and the uncertainties surrounding issues such as BREXIT, NNDR retention, the future of the NHS and Care Services, our local clarity of Vision and purpose has never been so important.

The budget setting process has faced significant constraints in Government funding in recent years - over 50% in real terms since 2010. The 4 year Local Government Finance Settlement confirmed in February 2016 that austerity measures are to continue with Revenue Support Grant (RSG) all but eradicated for most Councils by 2020 – and suggests that the key challenges that the Council is currently addressing are likely to become greater.

The Government has made a clear commitment to provide central funding allocations for each year of the Spending Review period by making an offer to any council that wished to take it up, of a four-year funding settlement to 2019/20 – and also said that, 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.

It has previously been recognised by the Council's Executive Management Team (a non-decision making forum of Cabinet Members and Chief Officers of the Corporate Management Team) that Members will need to focus on strategic decisions relating to high level financial issues. There also remains a high degree of uncertainty arising from further proposed changes in Local Government funding arising from an ongoing review of the Business Rates Retention system - as well as other changes arising from the Government's Welfare Reform agenda (including local support for Council Tax).

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, 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.

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.

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.

Work is continuing on a number of actions to address the financial position in future years:

- Delivering Quality Services project – the demand management approach to shift demand to more efficient methods of service delivery – online and automation (**Interactive Voice Response**). A savings target of £100k p.a. has already been included together with reduced CRM costs of £62k p.a. from 2019/20;
- Recruitment freeze – temporary 12 month appointments are now only being made; there is a robust challenge / re-justification process in place for all vacant posts with a requirement to investigate alternative options including restructuring to fill vacancies / looking at what we can stop doing. This means we have the opportunity to increase the vacancy allowance from 5% to 7.5% over the next 5 years – c. £45k p.a. year on year for the General Fund (£14k p.a. – HRA);
- Spend freeze – Managers have previously been required to restrict / limit spending to essential spend only (there was a £2m underspend in 2015/16 – although the majority was windfall income, c. £0.75m was lower level underspend);
- Alternative investment options arising from the Commercial Investment and Regeneration Strategy (as well as the Treasury Management Investment Strategy, including any prudential borrowing opportunities) to generate improved returns of c. 5% p.a. (plus asset growth) including:
 - Set up of trading company to develop new income streams;
 - Local investment options – Lower Gungate / Solway Close development including the potential to drawdown funding from the Local Growth Fund / Local Enterprise Partnerships (GBS and Staffordshire);
 - Investments in a Diversified Property Fund;
 - Investments in a Diversified Investment Vehicle (property, shares etc.);

Note: these would be subject to a robust check and Challenge business case and represent long term investments of between 5 – 10 years (minimum) in order to make the necessary returns (after set up costs).

- Review of reserves / creation of fund for transformation costs (if needed), and
- Targeted Savings – Members to identify potential areas for review in future years.

Vision, Thematic Priorities & Ambitions

The Council's vision is for Tamworth to be 'perfectly placed' to take full advantage of any/all opportunities to grow and sustain its economy for the benefit of 'people' and 'place'. The Corporate plan sets out our ambitions and what we plan to achieve across the period 2017 to 2020 in order to meet those ambitions. It underlines our commitment to investment and investing in the development of the borough, using the incomes generated to sustain essential services delivered to an agreed and consistent standard.

More than ever, we recognise that our financial capacity will be less than in previous years which means that we will need to maintain our approach to innovation, collaboration and transformation. So, not only will the Council seek investment from businesses and developers, but the Council itself will explore viable and sustainable investment opportunities using all returns to support public services.

The **2017/18 Corporate Plan** has been compiled and developed with contributions, views and opinions from local residents, businesses, partners from all sectors and politicians. When combined with a range of data sets, customer insight and information, it provides a robust and trustworthy evidence base against which this plan has been produced.

Whilst progress against the 3 Thematic Priorities adopted by the council last year has been considerable, the outcome from this years review of evidence clearly indicates that these priorities are still at the forefront of our plans and ambitions for 'people', 'place' and 'organisation'. As a result, the 3 Thematic Priorities will again form the basis of the Council's strategic framework and specific ambitions. It is these specific ambitions that serve to place the Thematic Priorities into context by setting out the Council's expectations for the plan period.

The **Vision, Thematic Priorities & Ambitions** at **Appendix A** set out how, under each Thematic priority, we plan to deliver gains or stated ambitions in order to progress against each priority.

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 2017/18 to 2019/20 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;
- It is good practice for members to be provided with access to relevant training – so 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 2017/18 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	£5.00 increase in Council tax in 2017/18 (followed by increases of £5.00 p.a.) (Proposed Option)
Model 2	1.99% increase in Council tax in 2017/18 (followed by increases of c.1.99% p.a.)
Model 3	0% increase in Council tax in 2017/18 (followed by increases of c.1.99% p.a.)
Model 4	2.5% increase in Council tax in 2017/18 (followed by increases of 2.5% thereafter)
Model 5	0% increase in Council tax in 2017/18 (followed by increases of 0% thereafter)
Model 6	1% increase in Council tax in 2016/17 (followed by increases of 1% thereafter)

Rent	Option Modelled / Considered
Statutory Requirement	Reduction of 1% (in line with the statutory requirement)

These are detailed within the Base Budget report to Cabinet on 24th November 2016 and the Draft Medium Term Financial Strategy report to Cabinet on 19th January 2017 and Joint Scrutiny Committee (Budget) on 24th January 2017.

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 2017/18, 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 £0.5m, above the minimum approved level of £0.5m. The draft Budget and Medium Term Financial Strategy is based on a council tax increase of £5 (3.09%) for 2017/18 (the maximum permitted under the Government set limits to trigger a referendum is the greater of £5 or 2.0%) followed by increases of £5 p.a. thereafter & in line with statutory requirements.

The Summary HRA Revenue Budget for 2017/18 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 £3m (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 £0.695m available (the minimum approved level is £0.5m).

The Council's uncommitted Housing Capital Resources will effectively be reduced to £1m 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 24th January 2017. In line with the constitution a Joint Scrutiny Budget Workshop was held on 1st December 2016 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 2016/17 base budget, approved by Council on 23rd February 2016, 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:

Risk	Control Measure
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)
New Homes Bonus grant levels lower than estimated; Continuation of the scheme with revisions has been confirmed – further changes are possible in future years. Achievement of forecast growth in housing numbers / reduced void levels; (High/Medium)	Future levels included on a risk based approach in order to offset further grant reductions / uncertainty over additional property numbers; (Medium)
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% or £5 for District Councils for 2017/18); (Low)
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)
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)
Pension costs higher than planned / adverse performance of pension fund; (Medium)	Regular update meetings with Actuary; Increases of c.£200k p.a. with a new ‘lump sum’ element have been included following triennial review (during 2016 for 2017/18) for 3 years; (Medium)
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;	Robust estimates included to arrive at collection target. Ongoing proactive management & monitoring will continue;

Risk	Control Measure
<p>New burdens (Section 31) grant funding for Central Government policy changes – including impact on levy calculation; Potential changes to the Business Rates Retention system by the DCLG following the announcement for Councils to keep 100% of the business rates collected by 2020; (High)</p>	<p>Business Rates Collection Reserve - provision of reserve funding to mitigate impact of any changes in business rate income levels; Monitoring of the situation / regular reporting; (High / Medium)</p>
<p>Local Council Tax Reduction scheme implementation – potential yield changes and maintenance of collection levels; (High)</p>	<p>Robust estimates included. Ongoing proactive management & monitoring (including a quarterly healthcheck on the implications on the organisation – capacity / finance) will continue; (High / Medium)</p>
<p>Achievement of income streams in line with targets e.g. treasury management interest, car parking, planning, commercial & industrial rents etc.; (High / Medium)</p>	<p>Robust estimates using a zero based budgeting approach have been included; (Medium)</p>
<p>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)</p>	<p>Robust monitoring and evaluation – should funds not be available then schemes would not progress; (Medium)</p>
<p>Dependency on partner organisation arrangements and contributions e.g. Waste Management (SCC/LDC). Potential cost of c.£223k p.a. should changes be made by SCC. (High / Medium)</p>	<p>Memorandum of Understanding in place with LDC. Potential mitigation options available for changes to green waste scheme. (Medium)</p>

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 2017/18 to 2021/22, Cabinet 19th January 2017 / Joint Scrutiny Committee (Budget) 24th January 2017
	Business Rates Income Forecast (NNDR1 return), Cabinet 19th January 2017
	Treasury Management Strategy Statement & Annual Investment Strategy Mid-year Review Report 2016/17, Council 13th December 2016
	Leaders Budget Workshop, 1st December 2016
	Draft Base Budget Forecasts 2017/18 to 2021/22, Cabinet 24th November 2016
	Budget Consultation Report, Cabinet 3rd November 2016
	Budget and Medium Term Financial Planning Process, Cabinet 28th July 2016
	Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2016/17, Council 23rd February 2016
	Treasury Management Practices 2017/18 (Operational Detail)

Summary of Appendices

Description	Appendix
Corporate Vision for Tamworth	A
Detailed Considerations	B
Policy Changes	C
HRA Budget Summary 2017/18 – 2021/22	D
General Fund Summary Revenue Budget 2017/18	E
General Fund Technical Adjustments 2017/18 (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 2017/18	N

CORPORATE VISION FOR TAMWORTH

“One Tamworth, Perfectly Placed”

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

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

VISION, THEMATIC PRIORITIES & AMBITIONS

The Council’s vision is for Tamworth to be ‘perfectly placed’ to take full advantage of any/all opportunities to grow and sustain its economy for the benefit of ‘people’ and ‘place’. This plan sets out our ambitions and what we plan to achieve across the period 2017 to 2020 in order to meet those ambitions. It underlines our commitment to investment and investing in the development of the borough, using the incomes generated to sustain essential services delivered to an agreed and consistent standard.

More than ever, we recognise that our financial capacity will be less than in previous years which means that we will need to maintain our approach to innovation, collaboration and transformation. So, not only will the Council seek investment from businesses and developers, but the Council itself will explore viable and sustainable investment opportunities using all returns to support public services.

The following tables set out how, under each Thematic Priority, we plan to deliver gains or stated ambitions in order to progress against each priority

TP1 “Living a Quality Life in Tamworth”

The Council believes that everyone should have the opportunity to live a quality life. In order to enable this, it will work with its public, partners and stakeholders to ensure that:

- More people will live longer, healthier lives;
- Fewer children will be obese and run the risk of heart disease and diabetes;
- People will feel safer and less fearful of crime and anti-social behaviour;
- The built and natural environments will be conserved to the highest possible standards;
- More people will be living independent lives with access to facilities;
- There will be fewer vulnerable people requiring specialised services;

TP2 “Growing Stronger Together in Tamworth”

The Council believes that the managed growth of the local economy based upon sustainable business growth, better skilled jobs, a vibrant town centre, high quality retail and leisure offers and local, regional and national connectivity will help make Tamworth an acknowledged “**Great place to live, work and raise a family**”. To achieve this, the Council will seek to ensure that:

- More businesses will locate and succeed in Tamworth;
- People will have access to a full range of quality housing options;
- Local infrastructure and connectivity will support an active workforce and help grow the economy;
- The Council will be recognised as both **business friendly** and **business like** in the way it facilitates and operates;
- Tamworth Town Centre will be regenerated and complement the outstanding retail and leisure offer;
- Tamworth will mean “**a great place to live**” not simply “**a place with more houses**”.
- The Council will have a Commercial Investment and Regeneration Strategy and an associated trading arm designed to invest in assets/other means of sustainable income generation.

TP3 “Delivering Quality Services in Tamworth”

Despite the unprecedented cuts in government funding and an extended period of austerity, the Council has sought to maintain a full suite of services. It accepts that changes in service scopes and standards have had an impact however; it remains committed to protecting those most vulnerable in our communities. In order to sustain this commitment, the Council embarked upon the largest and most complex transformation plan in its history. Consequently, the Council is now in a position to ensure that:

- Customer Satisfaction levels will be maintained above 90%;
- Access to all Council Services will be improved;
- The Council will set and maintain service standards that will be consistent, accessible and delivered by skilled staff;
- We will save you time and money by doing business with you “**On-line**”;
- Fewer customers will have to visit the Council offices to resolve their issues.

These are not simply words or the ambitions of politicians seeking to win 'votes'; these are the services, standards and outcomes that our public aspire to and expect of the Council. It is through the **Corporate Plan** that these aspirations and expectations will be achieved. The scale, scope and timescale relating to these outcomes presents the Council with a challenging yet achievable task over the forthcoming years.

In saying this, it is important to note that whilst the "**Plan**" focuses upon delivering against the 3 Thematic Priorities, the Council must also ensure that the wide range of day-to-day operational and support services continue to be delivered to a consistent and efficient standard. In doing so, it demonstrates how "**Delivering Quality Services**" both connects and underpins the Thematic Priorities for "**Place**" and "**People**."

Throughout the 'Plan' period, the Council's ongoing programme of Service Reviews, continuous improvement and whole system reviews will continue in line with the adopted **Sustainability Strategy**.

Services continue to be delivered through a mix of 'Direct' provision, contracted and/or commissioned services, joint/shared services and partnerships. Our aim to scrutinise and improve the way we plan, do and review will remain throughout the period of this plan.

So, between 2017 and 2020, the Council will work with its public, peers and partners in order to:

- a) **Sustain essential services at agreed standards for those in greatest need;**
- b) **Deliver a programme of projects, planned initiatives and work streams designed to achieve outcomes against the Thematic Priorities;**
- c) **Adopt a commercial approach to growth and investment designed to generate a sustainable income to support a) and b);**
- d) **Continue its excellent performance in financial planning, management and investment. By being 'Risk Aware' rather than 'Risk Averse', the Council will consider all opportunities to improve and/or sustain services.**

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 2017/18 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 2016/17 budget to arrive at the starting point for 2017/18. 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 2017/18 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 Government's austerity agenda & economic situation;
- 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. The forecast grant reductions and uncertainty following the EU referendum result have put significant pressure on the ability of the Council to publish a balanced MTFS.

It has been suggested that, given the uncertainty, there should be no knee jerk reactions – with a clear plan to focus on balancing the next 3 years' budget position, in compliance with the Prudential Code (minimum balances of £0.5m) by which time the economic impact, if any, should be clearer.

There are a number of other challenges affecting the Medium Term Financial Planning process for the period from 2017/18 which add a high level of uncertainty to budget projections.

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	Risk
Pay Award / National Insurance (GF)	0.5%	44	263	M/H
Pension Costs	0.5%	57	345	M/H
Council Tax	0.5%	17	109	L/M
Inflation / CPI	0.5%	48	292	M/H
Government Grant	1.0%	38	215	M/H
Investment Interest	0.5%	260	1644	H
Key Income Streams	0.5%	6	42	L
New Homes Bonus	10%	32	245	H
Business Rates	0.5%	64	391	H

GENERAL FUND

Future Revenue Support Grant & Business Rate income

On 15 December 2016, the Secretary of State for the Department for Communities and Local Government, Rt. Hon. Sajid Javid MP, made a statement to Parliament on the provisional local government finance settlement (LGFS) 2017/18.

This followed the confirmation received during November 2016 that the Government had accepted the Council's application for a four-year funding settlement to 2019/20.

The National Core Spending Power figures are detailed below and include the Settlement Funding Assessment (SFA); Council Tax; the Improved Better Care Fund; New Homes Bonus (NHB); Transitional Grant; Rural Services Delivery Grant; and the Adult Social Care Support Grant. The table shows the national changes to Core Spending Power between 2016/17 and 2019/20. It shows a reduction of 1.1% for 2017/18 and an overall increase for the period 2016/17 to 2019/20 of 0.4%.

Core Spending Power National Position	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment	21,250	18,601	16,632	15,599	14,584
Council Tax	22,036	23,247	24,623	26,082	27,629
Improved Better Care Fund	-	-	105	825	1,500
New Homes Bonus	1,200	1,485	1,252	938	900
Rural Services Delivery Grant	16	81	65	50	65
Transition Grant	-	150	150	-	-
Adult Social Care Support Grant	-	-	241	-	-
Core Spending Power	44,502	43,564	43,068	43,494	44,678
Change %		(2.1)%	(1.1)%	1.0%	2.7%
Cumulative change %		(2.1)%	(3.2)%	(2.3)%	0.4%

For future years, it has been assumed that there will be a reduction in Revenue Support Grant to 2019/20 in line with that notified within the Final LGFS for 2016/17, confirmed as unchanged as part of the 2017/18 LGFS, as detailed below.

BASE BUDGET	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Revenue Support Grant	770,996	493,964	184,529	-	-
% Reduction		(36)%	(63)%	(100)%	-

Business Rates

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.

The 2017/18 finance settlement represents the fifth year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding. As in the previous 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 £356k 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 Council received additional business rates during 2015/16 (above forecast / baseline) and had to pay a levy of £534k.

The latest estimates for 2016/17 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 base budget forecasts are detailed below.

Levy / Section 31 Grant	2017/18 £	2018/19 £	2019/20 £
NNDR Levy payment to GBSLEP (20%)	843,520	831,710	837,610
Section 31 Grant income	(409,260)	(423,700)	(437,080)

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

BASELINE	2017/18	2018/19	2019/20
	£	£	£
Retained Business Rates	13,031,478	13,415,917	13,844,714
Less: Tariff payable	(10,849,222)	(11,169,283)	(11,526,273)
Total	2,182,256	2,246,634	2,318,441
% Increase	2.0%	3.0%	3.2%
Provisional Settlement Funding (December 2016):			
Retained Business Rates	11,975,563	12,360,849	12,800,526
Less: Tariff payable	(9,791,708)	(10,106,733)	(10,466,231)
Total	2,183,855	2,254,116	2,334,295
% Increase	2.0%	3.2%	3.6%
Increase / (Decrease)	1,599	7,482	15,854

As identified above, the Business Rates Baseline for 2017/18 is marginally higher than expected at £2.18m. 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 £1.6k higher than expected in 2017/18 – the overall reduction in Government Support is 11.8% (as expected in our assumed reduction).

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

BASE BUDGET	2017/18	2018/19	2019/20
	£	£	£
Budgeted Funding:			
Retained Business Rates	13,982,727	14,103,007	14,224,161
Less: Tariff payable	(10,849,222)	(11,169,283)	(11,526,273)
Total	3,133,505	2,933,724	2,697,888
% Increase / (Decrease)	19.5%	(6.4)%	(8.0)%
Retained Business Rates	13,253,351	13,600,578	14,038,666
Less: Tariff payable	(9,791,708)	(10,106,733)	(10,466,231)
Total	3,461,643	3,493,845	3,572,435
% Increase / (Decrease)	32.0%	0.9%	2.2%
<hr/>			
Increase / (Decrease) Total	328,138	560,121	874,547

Based on this Government financial support will reduce as shown below:

BASE BUDGET	2017/18	2018/19	2019/20
	£	£	£
Budgeted Funding:			
Revenue Support Grant	770,996	493,964	184,529
Retained Business Rates	13,982,727	14,103,007	14,224,161
Less: Tariff payable	(10,849,222)	(11,169,283)	(11,526,273)
Total	3,904,501	3,427,688	2,882,417
% Increase / (Decrease)	1.9%	(12.2)%	(15.9)%
Provisional Settlement Funding (Updated January 2017):			
Revenue Support Grant	770,996	493,964	184,529
Retained Business Rates	13,253,351	13,600,578	14,038,666
Less: Tariff payable	(9,791,708)	(10,106,733)	(10,466,231)
Total	4,232,639	3,987,809	3,756,964
% Increase / (Decrease)	10.5%	(5.8)%	(5.8)%
<hr/>			
Increase / (Decrease)	328,138	560,121	874,547

The table shows that overall funding should be c.£328k more than expected in 2017/18 (£1.8m more than expected over 3 years).

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

The retained Business Rates forecast is based on the statutory NNDR1 return – approved by Cabinet on 19th January 2017 – prior to final sign off by the statutory deadline of 31st January 2017.

There are still significant uncertainties - specifically the treatment of:

- The level of inflation affecting the future increases to the multiplier;
- Forecast levels of growth in business rates;
- The estimated level of mandatory and discretionary reliefs;
- The estimated level of refunds of Business Rates following the Appeal process; and
- Finalisation of the ongoing treatment 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.

New Homes Bonus (NHB)

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 scheme was subject to a consultation paper in December 2015. This paper outlined a number of potential changes to the scheme, including a change in the scheme's funding. This change moved from having an open-ended funding amount (based on the number of new homes) to a finite amount that could not be exceeded. The funding for the scheme over the period 2017/18 to 2019/20 was also announced, these amounts being:

2017/18	£1,493m
2018/19	£938m
2019/20	£900m

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

Modelling	2016/17	2017/18	2018/19
	£'000	£'000	£'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			212

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

The 2017/18 allocations reflect the outcome of the consultation. The government has made/proposed the following changes to the scheme:

- Funding is reduced by £241m in 2017/18 (funding remains at pre-announced levels for 2018/19 and 2019/20);
- Funding will be reduced from 6 years to 5 years in 2017/18;
- Funding will then reduce to 4 years for 2018/19 onwards;
- From 2018/19, the government will consider withholding payments from local authorities that are not *“planning effectively, by making positive decisions on planning applications and delivering housing growth”*; and
- A consultation is planned regarding withholding payments for homes that are built following an appeal.

It is important to note that:

- For authorities below the 0.4% threshold for growth (like Tamworth for 2017/18), it is only the “in-year” element of funding that is not received i.e. they will still receive the historic payments. For 2017/18, this will mean that an authority will still receive payments for the four previous years; and
- The allocations for 2018/19 and 2019/20 are indicative and will be reliant on any further changes to the scheme and growth locally.

New Homes Bonus income forecasts were subsequently updated (including changes in forecast new home increases) and included within the base budget as detailed in the table below.

The implementation of the proposed reforms to the scheme will mean that the length of New Homes Bonus payments will be reduced from 6 years to 5 years in 2017/18 and 4 years from 2018/19. Revised forecasts are also shown in the table below. It was assumed within the base budget that it would be 4 years from 2017/18 which means the Council will be better off by c.£53k in 2017/18.

BASE BUDGET	2017/18	2018/19	2019/20
NHB	£	£	£
MTFS Budget	641,590	618,350	602,350
Reduced / Additional (-) income	321,254	202,423	(48,778)
Base Budget	320,336	415,927	651,128
<i>Risk Weighting applied</i>	100%	75%	50%
Revised forecast	373,156	331,365	667,177
(Gain) / Loss	(52,820)	84,561	(16,050)
<i>Revised Risk Weighting applied</i>	100%	75%	75%

However, from 2017/18 the national baseline for housing growth below which New Homes Bonus will not be paid was set at 0.4% (reflecting a percentage of housing that would have been built anyway). The Government will retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. It had been assumed that a ‘deadweight’ factor of 0.25% would be implemented, in line with the consultation – but as the Government have increased this to 0.4% then the Council will be worse off in future years.

The impact on the MTFS over 3 years would be £135k loss. However, due to the prudent risk aware approach to budgeting for new homes bonus (given the uncertainties), the prudency rates have been amended to reflect the increased certainty for the ongoing operation of the scheme.

This results in an overall loss to the MTFS of £16k over 3 years.

Technical Adjustments

Revisions have been made to the 2016/17 base budget in order to produce an adjusted base for 2017/18 and forecast base for 2018/19 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	2017/18 £'000	2018/19 £'000	2019/20 £'000
Base Budget B/Fwd	8,460	9,330	9,448
Committee Decisions	35	(3)	(722)
Inflation	34	32	31
Other	841	16	(268)
Pay Adjustments (Including pay award / reduction of 5% for vacancy allowance)	6	73	118
Revised charges for non-general fund activities	(46)	-	-
Total / Revised Base Budget	9,330	9,448	8,607

* () denotes saving in base budget

Policy Changes

The policy changes provisionally agreed by Council in February 2016 have been included within the technical adjustments for 2017/18 onwards. **A list of the proposed new policy changes for 2017/18 is attached at Appendix C and summarised below:**

Policy Changes Identified	2017/18 £'000	2018/19 £'000	2019/20 £'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	100.0	-	-
Apprenticeship Levy - Amount required under Government legislation (GF impact)	33.0	33.0	33.0
Deferral of savings from review of Senior Management - net of the removal of the DCPD vacant post	200.0	70.0	70.0
West Midlands Combined Authority (WMCA) - contribution towards ongoing costs	25.0	25.0	25.0
Revised New Homes Bonus Grant	(52.8)	84.6	(16.0)
Negotiated savings in Pensions costs arising from Advance payment	-	(120.0)	-
Interest element of Capital Receipt from sale of Former Golf Course	(166.0)	(49.0)	-
Vacancy Allowance Contingency Budget	(50.0)	(50.0)	(50.0)
Contribution from Building Repairs Fund	(53.2)	(53.2)	(53.2)
Commercial Investment and Regeneration Strategy (CIRS)	75.0	-	-
Business Rates Levy payment	211.0	324.0	478.0

Policy Changes Identified	2017/18 £'000	2018/19 £'000	2019/20 £'000
Business Rates Section 31 Grant Income	(94.0)	(96.0)	(97.0)
An increase in the Vacancy allowance from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(43.7)	(89.9)	(134.9)
Revenue Implications of Capital Programme - Recharge of costs to Business Improvement District levy	5.0	(11.4)	(11.6)
To extend the current temporary two-year contract of the Training Officer by a year, funded by income generated by providing training courses to external organisations.	10.0	18.0	-
Income budget to be established to offset additional cost of above proposal	(10.0)	(18.0)	-
Revenue Implications of Capital Programme - Efficiencies in Disaster Recovery and Hardware Maintenance costs	-	(10.0)	(10.0)
To make the post of Scrutiny & Corporate Support Officer a permanent full-time position on the establishment	13.5	13.5	13.5
To provide additional ongoing funding to support the provision of the Shopmobility service currently provided by MAP	5.0	5.0	5.0
Revenue Implications of Capital Programme – Self Service – ongoing maintenance & savings in CRM costs	20.0	20.0	(42.0)
Revenue Implications of Capital Programme - Time Recording Scheme - ongoing maintenance & development costs	-	4.0	4.0
Customer Services Staffing - Delayed delivery of part of the planned savings of £100k p.a. (£33k p.a. achieved to date)	67.0	67.0	-
Removal of the DCPV vacant post	(70.0)	(70.0)	(70.0)
Homelessness Prevention activity – proposals to add 2 members of staff for enhanced service delivery arrangements within the Housing Solutions Team	70.5	70.5	-

Policy Changes Identified	2017/18 £'000	2018/19 £'000	2019/20 £'000
It is proposed to make the existing temporary regeneration post a permanent role	-	-	45.0
Staffing costs associated with the capital programme / disposal, creation or acquisition of assets can be capitalised	-	-	(45.0)
Revised Waste Management arrangement costs - Reflects impact of reduction in income from sale of recyclate	60.0	60.0	60.0
Replacement contract for the operational vehicle fleet	(60.2)	(60.2)	(60.2)
Targeted income from implementation of charge for Green Waste service pending finalisation of the current review and detailed report to Full Council for approval	-	(245.0)	(245.0)
Rental income from letting of vacant accommodation within Marmion House	-	(46.0)	(46.0)
Service Charge income from letting of vacant accommodation within Marmion House	-	(46.0)	(46.0)
Tamworth Enterprise Centre - Staffing Costs	21.6	22.7	23.8
Tamworth Enterprise Centre - Revised operational savings	(18.5)	(38.5)	(45.9)
Total New Items / Amendments	298.2	(185.9)	(215.5)

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 2017/18 are that authorities will be required to seek the approval of their local electorate in a referendum if, compared with 2016/17, they set council tax increases that are equal to or exceed the greater of 2.0% or £5.

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 the greater of 2.0% or £5 in future years - the impact of a £5 p.a. (c.3% p.a.) is outlined below.

Council Tax

Last year's medium term financial plan identified ongoing increases of c.1.99% per annum from 2017/18. 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. £34k additional income per annum.

The Council's provision for collection losses for 2017/18 has been approved at 2.1% (the same level as 2016/17). 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 £166.75 for 2017/18 (£161.75 - 2016/17). Future levels of Council Tax and the projected impact on the General Fund revenue account forecast would be as follows:

Year:	2017/18	2018/19	2019/20
Forecast:	£'000	£'000	£'000
Surplus (-) /Deficit	1,455	1,589	2,235
Balances Remaining (-) / Overdrawn	(4,326)	(2,737)	(502)
£ Increase	5.00	5.00	5.00
% Increase	3.09%	3.00%	2.91%
Note: Resulting Band D Council Tax	166.75	171.75	176.75

which indicates potential balances of £0.5m (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% or £5, 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 surplus of £0.8m for Business Rates.

Year:	2017/18	2018/19	2019/20
Council Tax	£'000	£'000	£'000
Council Tax Income	(3,517)	(3,677)	(3,870)
Collection Fund Surplus (Council Tax)	(81)	-	-
Collection Fund Surplus (Business Rates)	(338)	-	-

The County Council, OPCC and Fire & Rescue Authority are due to finalise their budgets for 2017/18 during February 2017. 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 2017 General Fund Revenue Balances are estimated to be £5.781m, compared with £3.605m 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 2017/18, appears at **Appendix E**. A summary of the resulting budgets over the 3 year period appears at **Appendix G**.

Summary	2017/18 £'000	2018/19 £'000	2019/20 £'000
Estimated Net Cost of Services	9,330	9,448	8,607
Proposed Policy Changes / Additional Costs Identified (Detailed at Appendix C) (Rounded)	298	(186)	(215)
Final Recharge & Inflationary Adjustments (after Policy Changes inclusion)	(5)	(8)	(19)
Transfer to Transformation Reserve	-	-	1,490
Net Expenditure	9,623	9,254	9,863
Financing:			
RSG	(771)	(494)	(185)
Collection Fund Surplus (Council Tax)	(81)	-	-
Collection Fund Deficit (Business Rates)	(338)	-	-
Tariff Payable	9,792	10,107	10,466
Non Domestic Ratepayers	(13,253)	(13,601)	(14,039)
Council Tax Income	(3,517)	(3,677)	(3,870)
Gross Financing	(8,168)	(7,665)	(7,628)
Surplus(-) / Deficit	1,455	1,589	2,235
Balances Remaining (-) / Overdrawn	(4,326)	(2,737)	(502)
Per Council, 23rd February 2016	(2,334)	(608)	-

HOUSING REVENUE ACCOUNT

Technical Adjustments

The 2016/17 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 2017/18.

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

Technical Adjustments	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Base Budget	368	357	1,455	491	367
Committee Decisions	441	633	(933)	49	-
Inflation	127	131	134	153	157
Other	(650)	280	(209)	(404)	(325)
Pay Adjustments	48	54	44	78	74
Revised charges for non-general fund activities	23	-	-	-	-
Total / Revised Base Budget	357	1,455	491	367	273

Revisions have been made to the 2016/17 base budget in order to produce an adjusted base for 2017/18 and forecast base for 2018/19 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	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Apprentice Levy	10	10	10	11	11
Negotiated savings in Pensions costs arising from Advance payment	-	(37)	-	-	-
An increase in the vacancy allowance from 5% to 7.5% over 5 years	(13)	(27)	(42)	(57)	(74)
Replacement contract for the operational vehicle fleet	(4)	(4)	(4)	(4)	(4)
Total New Items / Amendments	(7)	(58)	(36)	(50)	(67)

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

Summary	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Estimated Net (Surplus) / Deficit	357	1,455	491	367	273
Proposed Policy Changes / Additional Costs Identified	(7)	(58)	(36)	(50)	(67)
Final Recharge & Inflationary Adjustments (after Policy Changes inclusion)	10	10	10	10	10
Surplus (-) / Deficit	360	1,407	465	327	216
Balances Remaining (-) / Overdrawn	(5,392)	(3,985)	(3,520)	(3,193)	(2,977)

Per Council, 23 rd February 2016	(2,330)	(1,059)	(1,045)	(875)	-
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Indicating a Housing Revenue Account (HRA) balances of £3m over the next 5 years (Minimum recommended balances are currently £0.5m).

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;
- Delivery of regeneration programme to planned timescales;
- 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);
- The potential 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 – the Government have confirmed that implementation of this initiative will be optional for 2017/18. Local Authorities will have to repay the rent subsidy that they recover from high income tenants to the Exchequer;
- Any impact from the sale of high value council housing scheme should it be implemented in 2017/18; and
- 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 Government's 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 announced that it would put in place a one-year exemption for all supported accommodation whilst they review this area of supported accommodation. The exemption has subsequently been confirmed for future years.

The Government identified a range of accommodation which would benefit from the exclusion - for the Council this includes its sheltered housing and supported accommodation for young people – totalling 385 units of council owned stock.

The 2016 revised definition of “Specialised supported housing” means supported housing:

- (a) which is designed, structurally altered, refurbished or designated for occupation by, and made available to, residents who require specialised services or support in order to enable them to live, or to adjust to living, independently within the community,

- (b) which offers a high level of support, which approximates to the services or support which would be provided in a care home, for residents for whom the only acceptable alternative would be a care home,

- (c) which is provided by a private registered provider under an agreement or arrangement with
- (i) a local authority, or
 - (ii) the health service within the meaning of the National Health Service Act 2006(d),
- (d) in respect of which the rent charged or to be charged complies with the agreement or arrangement mentioned in paragraph (c), and
- (e) in respect of which either
- (i) there was no public assistance, or
 - (ii) if there was public assistance, it was by means of a loan secured by means of a charge or a mortgage against a property.

The Government's expectation is that rents will not increase by more than CPI + 1% where the exemption is applied. Rents for Supported Accommodation were frozen at 2015/16 levels.

However, the remodelling of the Councils 365 Sheltered units in 2015/16 in particular (with service charges levied for enhanced housing management) marked a shift away from specialist supported accommodation and therefore the ability to claim the exemption in line with the revised definition above.

For 2017/18 to 2019/20, it has been assumed at all rents will fall by 1% - including rents for supported accommodation.

Balances

The forecast level of balances at 31st March 2017 is £5.75m. The impact on balances of the adjustments outlined in this report would be as follows:

Balances	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Proposed Withdrawal from / Addition to (-) Balances	360	1,407	465	327	216
Balances Remaining (-) / Overdrawn	(5,392)	(3,985)	(3,520)	(3,193)	(2,977)

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 2017/18 to 2021/22

Capital Programme

Following a review of the Capital Programme approved by Council on 23rd February 2016, 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.

A schedule of the capital scheme appraisals for the General Fund (GF) & Housing Revenue Account (HRA) received for consideration is attached at **Appendix I – General Services and Appendix J – Housing**, together with the likely available sources of funding (capital receipts / grants / supported borrowing etc.).

With regard to the contingency schemes/allocation, **£50k** remains in 2016/17 GF contingency funds and **£100k** remains in 2016/17 HRA contingency funds (which will be re-profiled into 2017/18 to provide contingency funding).

To inform discussions, the proposals have been reviewed by the Asset Strategy Steering Group and Corporate Management Team with comments for each of the schemes outlined below.

General Fund

The forecast has highlighted that sufficient resources will be available to finance all of the GF schemes submitted – subject to use of part of the capital receipt from the Golf Course sale (c.£250k) to support invest to save projects (summarised below).

The minimum approved level of capital balances is £0.5million with GF capital balances of **£695k** predicted over the 3 years to 2019/20 (including £445k tranche 1 Golf Course capital receipts), **net £250k**. This excludes the further tranches of Golf Course capital receipt payments of £24.2m (less the revenue interest element).

It is estimated that £5.765m (excluding the £0.5m approved minimum balance) will be needed during the period to 2019/20 for future capital spending (including the usable capital receipts generated from the sale of council housing).

Potential prudential borrowing of £1.229m for the Cultural Quarter is included (should sufficient capital receipts not be available). Details of the proposed capital programme are shown in **Appendix I**.

The capital programme has been reviewed and updated:

General Fund

a) Technology Replacement

A revised capital submission had been prepared for £77k in 2017/18 (with £60k p.a. from 2018/19) for ongoing, large scale upgrade and maintenance to the TBC infrastructure, in line with agreed device lifecycles. Additional to this internal demand, external factors including legislative requirements from central government in the guise of the Public Sector Network (PSN) and Government Code of Connection, have resulted in required investment into static and mobile device management and security (the provisional programme included £60k p.a. from 2017/18). **Payback through savings of c. £10k p.a. from year 2.**

b) BID Software

An additional scheme for £17.4k in 2017/18 has been included following a report to Cabinet seeking Members approval to progress a Business Improvement District for Tamworth Town Centre and Ventura Park **(with payback of additional income of c. £12k p.a. from year 2)**.

Should a BID progress (subject to further feasibility work / a ballot of local businesses) the Council will be responsible for billing, collection and recovery for the BID Levy.

There will be an initial capital requirement to set up the BID billing system, which will include a module add-on for our current Capita system and consultancy support to get this module operational.

ICT are to be consulted on the new software requirements.

c) Self service

An additional scheme for £115k in 2017/18 has been included to enable customers to self-serve routine and basic enquires via our telephony systems and via an online portal without the need for an officer's intervention to fully support the delivery of the Council's corporate Customer Service and Access Strategy.

There are planned savings of £100k p.a. from year 2 (less £20k p.a. ongoing costs) which have already been included with the base budget (of which customer services have already delivered c.£50k);

The Customer Portal would also allow CRM to be switched off – thereby releasing payback of £62k p.a. in additional savings (no need for Staffs Connects subscription from 2019/20) as well as further potential staffing efficiencies;

At this stage there is some uncertainty over the precise nature of the portal and the associated costs (which could potentially be made through revenue as suppliers have indicated due to budget constraints in LA's they are now willing to consider either option).

Given the uncertainty, it is suggested that the capital scheme be included within the capital programme as a specific contingency – subject to an options appraisal / business case report to Cabinet.

d) Civil Contingencies Technology

An additional scheme for £19k in 2017/18 has been included as Tamworth Borough Council is a Tier 1 Responder under the Civil Contingencies Act and as such, must provide a level of preparedness and ability to respond in the event of an incident. One of the key requirements of this service is the ability to operate Incident Control facilities which can be deployed by ourselves, or any other public body. Little investment has been made in this arena and recent multi agency activities have re-enforced the need for this investment to ensure the organisation can fulfill legislative obligations.

This scheme was for the technological infrastructure only and does not include for any refurbishment / furniture.

At this stage there is some uncertainty over the precise nature of the equipment and the associated costs.

Given the uncertainty, it is suggested that the capital scheme be included within the capital programme as a specific contingency – subject to an options appraisal / business case report to Cabinet.

e) New Time Recording System

An additional scheme for £15k in 2017/18 has been included to source a replacement product for the current clocking system including new hardware. The current contract expires on 31st March 2017.

The new product will need to integrate with the current Itrent HR & Payroll to prevent double entry of data and provide a user friendly employee and manager experience using self service module. Solution will also need to be able to roster and predict resource levels to meet customer demand.

It was clarified that there is an option to extend given the 31st March contract expiry.

The appraisal suggests efficiencies will be made by avoiding duplication – potential non-cashable savings to be quantified / a return on the investment achieved.

f) Disabled Facilities Grants

The provisional programme included £250k p.a.

Due to uncertainties around the Better Care Fund and budgetary issues at SCC, a significant risk on the current grant funding was highlighted. An ongoing £224k p.a. has been assumed to be redistributed.

g) CCTV Camera Renewals

An updated appraisal has not been prepared – it was clarified that the funding is required for the rolling replacement of cameras, subject to the results of a condition survey during 2016/17. A budget of £29k is currently available in 2016/17 following re-profiling from 2015/16.

h) Street Lighting

An updated appraisal has not been prepared – following inclusion of a rolling programme with an annual spend required from 2016/17. 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' and a lighting head replacement programme based on providing more efficient low energy lighting heads.

i) Cultural Quarter / Assembly Rooms

Updated figures (excluding SCC spend) to reflect delayed spend of £2m for 2016/17 have been included.

j) Gateways

An updated appraisal has not been prepared – the provisional programme included £70k (net cost to the Council) in 2017/18 and 2018/19 which will draw in funding and professional support from SCC – with plans for significant capital works in future years (funded mainly by SCC through the Regional Growth Fund / section 106 receipts. SCC spend removed from TBC budgets. Spend is subject to Section 106 funding receipts of £100k.

k) Refurbishment of Marmion House Reception

An additional scheme for £100k in 2017/18 has been included to redesign the reception area in order to improve customer access to service delivery.

It would involve the removal of the existing reception desk, installation of new customer service desks and customer self service area.

It was noted that it has been over 10 years since the reception area was refurbished;

Since then there has been significant change – channel shift, additional PC access for self service and 48% reduced footfall;

At this stage there is some uncertainty over the precise nature of the works and the associated costs.

Given the uncertainty, it is suggested that the capital scheme be included within the capital programme as a specific contingency – subject to an options appraisal / business case report to Cabinet.

l) Play Area – £60k included for 2017/18 only.

Housing

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

The majority of the Housing capital programme has not changed from that provisionally approved (pending updated stock conditional survey information). It has been updated to include the new year 5 costs for 2021/22 (at the same level as 2020/21) and an additional scheme for Garage refurbishments.

It is estimated that the proposed Housing capital programme can be financed from forecast usable capital receipts, the major repairs allowance and revenue contributions/reserves. It is estimated that approx. **£0.5m** will remain in housing capital resources by 2019/20 with **£1.0m** at the end of the 5 year programme.

It is estimated that approximately £50.6m (excluding the £0.5m approved minimum balance) will be needed during the period to 2021/22 for future capital spending (the 'headroom' in line with the HRA Government Debt Cap is £11.4m – subject to the 2016/17 borrowing need).

The capital programme has been reviewed and updated:

Housing Revenue Account

a) Retention of Garage Sites

An additional scheme for 3 years from 2017/18 has been included to invest in retained garages to meet demand and to provide alternative uses including parking areas.

It was agreed that a feasibility study is needed in 2017/18 to identify:

- Where there is demand for garage sites;
- Where there is demand for parking areas; and
- Alternative uses where there is no demand (new build, disposal etc.);

to inform a business case for refurbishment / demolition. A budget of £150k for 2017/18 followed by £500k for 2 the following years has been included.

b) Tinkers Green / Kerria

The budget will need to be updated following the tender results.

c) Development of Housing on Garage Sites / Other Acquisitions

Funding of £3m p.a. from 2017/18 has been provisionally approved for Redevelopment of Garage Sites for housing with £0.5m p.a. for other housing acquisitions.

d) Neighbourhood Regeneration – £100k included for 2017/18 only.

Policy Changes Summary

DIRECTORATE	Sheet No.	Budget Changes	Budget Changes	Budget Changes
		17/18	18/19	19/20
		£'000	£'000	£'000
Chief Executive	1	(0.93)	(0.96)	(0.97)
Executive Director Corporate Services	2	(4.15)	(4.26)	(4.36)
Director of Finance	3	228.34	(80.78)	216.32
Director of Technology & Corporate Programmes	4	(2.62)	(12.54)	(2.70)
Solicitor to the Council	5	12.02	(1.52)	(1.56)
Director of Transformation & Corporate Performance	6	87.11	(2.44)	(134.21)
Director of Communities, Planning & Partnerships	7	(70.47)	(0.48)	(0.49)
Director of Communities, Partnerships & Housing	8	66.76	(3.51)	(74.12)
Director of Growth, Assets & Environment	9	(17.84)	(377.62)	(27.47)
TOTAL		298.22	(484.11)	(29.56)
Cumulative Cost / (Saving)		298.22	(185.89)	(215.45)

	Sheet No.	Budget Changes	Budget Changes	Budget Changes	Budget Changes	Budget Changes
		17/18	18/19	19/20	20/21	21/22
		£'000	£'000	£'000	£'000	£'000
Housing Revenue Account	10	(7.39)	(51.05)	22.53	(14.57)	(16.30)
TOTAL		(7.39)	(51.05)	22.53	(14.57)	(16.30)
Cumulative Cost / (Saving)		(7.39)	(58.44)	(35.91)	(50.48)	(66.78)

Policy Changes Summary Staffing Implications

DIRECTORATE	Sheet No.	Budget Changes	Budget Changes	Budget Changes
		17/18	18/19	19/20
		£'000	£'000	£'000
Chief Executive	1	-	-	-
Executive Director Corporate Services	2	-	-	-
Director of Finance	3	-	-	-
Director of Technology & Corporate Programmes	4	1.0	(1.0)	-
Solicitor to the Council	5	0.5	-	-
Director of Transformation & Corporate Performance	6	2.0	-	(2.0)
Director of Communities, Planning & Partnerships	7	(1.0)	-	-
Director of Communities, Partnerships & Housing	8	2.0	-	(2.0)
Director of Growth, Assets & Environment	9	1.0	-	1.0
TOTAL		5.5	(1.0)	(3.0)

	Sheet No.	Budget Changes	Budget Changes	Budget Changes	Budget Changes	Budget Changes
		17/18	18/19	19/20	20/21	21/22
		£'000	£'000	£'000	£'000	£'000
Housing Revenue Account	10	-	-	-	-	-
TOTAL		-	-	-	-	-

17/18 Budget Process - Policy Changes

Sheet 1

CHIEF EXECUTIVE

Item No	BC Ref	Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000
CE1	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(0.93)	(0.96)	(0.97)
Total New Items / Amendments				(0.93)	(0.96)	(0.97)

STAFFING IMPLICATIONS

Item No	BC Ref	Proposal/(Existing Budget)	Implications	17/18 FTE	18/19 FTE	19/20 FTE
TOTAL				-	-	-

EXECUTIVE DIRECTOR CORPORATE SERVICES

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000
ED1	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(4.15)	(4.26)	(4.36)
		Total New Items / Amendments		(4.15)	(4.26)	(4.36)
STAFFING IMPLICATIONS						
				17/18 FTE	18/19 FTE	19/20 FTE
		TOTAL		-	-	-

DIRECTOR OF FINANCE

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'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	STAT	Apprenticeship Levy	Amount required under Government legislation (GF impact)	33.00	-	-
DF3	SAV	Deferral of Senior Management Review	Deferral of savings from review of Senior Management - net of the removal of the DCPD vacant post (See Policy Change CPP2)	200.00	(130.00)	-
DF4	OTHER	West Midlands Combined Authority (WMCA) - contribution towards ongoing costs	At the meeting of the WMCA programme Board on 13 November 2015, it was agreed that Non-Constituent Authorities contribute £25k for 2016/17 - at the Finance Directors meeting on 29 September 2016 it was indicated that this is likely to be an ongoing commitment.	25.00	-	-
DF5	STAT	Revised New Homes Bonus Grant	Scheme changes provisionally confirmed December 2016	(52.82)	137.38	(100.61)
DF6	VFM	Negotiated savings in Pensions costs arising from Advance payment	Option to pay 3 years pension lump sum element in advance in April 2017 (£157k saving - £120k GF)	-	(120.00)	120.00
DF7	SAV	Interest element of Capital Receipt from sale of Former Golf Course	Due to the deferred sale receipts in September 2016, 2017 & 2018 - part of the receipt accounted for as interest	(166.00)	117.00	49.00
DF8	SAV	Vacancy Allowance Contingency Budget	Saving as budget not used	(50.00)	-	-
DF9	SAV	Contribution from Building Repairs Fund	Return of part of the fund balance over 4 years	(53.20)	-	-
DF10	SAV	Revenue Implications of Capital Programme	Recharge of costs to Business Improvement District levy	5.00	(16.40)	(0.20)
DF11	VFM	Commercial Investment Strategy (CIS)	Budget required for ongoing external support in the development and delivery of the CIS projects	75.00	(75.00)	-
DF12	STAT	Business Rates Levy payment	Estimated levy based on NNDR1 forecasts	211.00	113.00	154.00
DF13	STAT	Business Rates Section 31 Grant Income	New Burdens funding for Government scheme to reduce business rates charges	(94.00)	(2.00)	(1.00)
DF14	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(4.64)	(4.76)	(4.87)
Total New Items / Amendments				228.34	(80.78)	216.32

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	17/18 FTE	18/19 FTE	19/20 FTE
DF3	SAV	Deferral of Senior Management Review	Deferral of savings from review of Senior Management - net of the removal of the DCPD vacant post (See Policy Change CPP2)	TBA	TBA	-
TOTAL				-	-	-

DIRECTOR TECHNOLOGY & CORPORATE PROGRAMMES

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000
TC1	VFM	To extend the current temporary two-year contract of the Training Officer by a year, funded by income generated by providing training courses to external organisations.	Budgetary funding for the current post holder ends Dec 2017. It is requested that a further year's funding for the position is provided, offset by an additional income budget to be established with a view to making the post self-financing, by providing training courses to external organisations.	10.00	8.00	(18.00)
TC2	VFM	Income budget to be established to offset additional cost of above proposal	Training courses to be provided to external organisations - if this proves successful a business case to be drawn up to retain the above post.	(10.00)	(8.00)	18.00
TC3	VFM	Revenue Implications of Capital Programme	Efficiencies in Disaster Recovery and Hardware Maintenance costs	-	(10.00)	-
TC4	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(2.62)	(2.54)	(2.70)
Total New Items / Amendments				(2.62)	(12.54)	(2.70)

STAFFING IMPLICATIONS

				17/18 FTE	18/19 FTE	19/20 FTE
TC1		To extend the current temporary two-year contract of the IT Training Officer for a further year	The postholder's current contract is due to end Dec 2017	1.00	(1.00)	-
TOTAL				1.00	(1.00)	-

SOLICITOR TO THE COUNCIL

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000
SOL1	OTHE R	To make the post of Scrutiny & Corporate Support Officer a permanent full-time position on the establishment	The current position, which has been advertised on a temporary basis, is part-funded by the vacant 18.5 hr PA to the Chief Executive role. Budgetary funding for the remaining 18.5 hrs on an ongoing basis is requested.	13.50	-	-
SOL2	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(1.48)	(1.52)	(1.56)
Total New Items / Amendments				12.02	(1.52)	(1.56)

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	17/18 FTE	18/19 FTE	19/20 FTE
SOL1		To make the post of Scrutiny & Corporate Support Officer a permanent full-time position on the establishment	There is currently ongoing provision for 0.5 of this post (vacant Chief Exec PA 0.5) and this proposal would increase the establishment by 0.5 FTE	0.50	-	-
TOTAL				0.50	-	-

DIRECTOR OF TRANSFORMATION & CORPORATE PERFORMANCE

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000
TCP1	OTHER	To provide additional ongoing funding to support the provision of the Shopmobility service currently provided by MAP	We currently make an annual contribution of £5k to MAP for the provision of the Shopmobility service. This proposal would increase our contribution to £10k p.a.	5.00	-	-
TCP2	VFM	Revenue Implications of Capital Programme	Self Service Scheme - Maintenance and support costs for both telephony and on-line portal systems to include service desk interactions, upgrades and system enhancements. Saving in CRM costs from 2019/20	20.00	-	(62.00)
TCP3	VFM	Revenue Implications of Capital Programme	Time Recording Scheme - ongoing maintenance & development costs	-	4.00	-
TCP4	OTHER	Customer Services Staffing - Delayed delivery of part of the planned savings of £100k p.a. (£33k p.a. achieved to date)	A temporary establishment has been designed to meet the needs of the Authority as it is now, however change is occurring rapidly within the Customer Services Teams and without the appropriate staffing levels we will not achieve our aims and objectives and associated savings target from 2019/20	67.00	-	(67.00)
TCP5	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(4.89)	(6.44)	(5.21)
Total New Items / Amendments				87.11	(2.44)	(134.21)

STAFFING IMPLICATIONS

				17/18 FTE	18/19 FTE	19/20 FTE
TCP4	OTHE R	Customer Services Staffing - Delayed delivery of part of the planned savings of £100k p.a. (£33k p.a. achieved to date)	Increase in establishment for 2 years	2.00	-	(2.00)
TOTAL				2.00	-	(2.00)

DIRECTOR COMMUNITIES, PLANNING & PARTNERSHIPS

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000
CPP1	CORP	Senior Management Review	Removal of the DCPD vacant post	(70.00)	-	-
CPP2	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(0.47)	(0.48)	(0.49)
Total New Items / Amendments				(70.47)	(0.48)	(0.49)

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	17/18	18/19	19/20
				FTE	FTE	FTE
CPP1	CORP	Senior Management Review	Removal of the DCPD vacant post	(1.0)	-	-
TOTAL				(1.0)	-	-

DIRECTOR COMMUNITIES, PARTNERSHIPS & HOUSING

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000
DHH1	OTHER	Homelessness Prevention activity - proposals for enhanced service delivery arrangements within the Housing Solutions Team from March 2017. Temporary posts for 2 years	To increase the capacity of the team with the addition of 2 members of staff: 1 additional Senior Housing Solutions Officer at Grade 6 (£37K) and 1 additional Housing Solutions Officer at up to Grade 5 (£33.5K)	70.50	-	(70.50)
DHH2	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(3.74)	(3.51)	(3.62)
Total New Items / Amendments				66.76	(3.51)	(74.12)

STAFFING IMPLICATIONS

No		Proposal/(Existing Budget)	Implications	17/18 FTE	18/19 FTE	19/20 FTE
DHH1	OTHER	Homelessness Prevention activity - proposals for enhanced service delivery arrangements within the Housing Solutions Team from March 2017. Temporary posts for 2 years	To increase the capacity of the team with the addition of 2 members of staff: 1 additional Senior Housing Solutions Officer at Grade 6 (£37K) and 1 additional Housing Solutions Officer at up to Grade 5 (£33.5K)	2.00	-	(2.00)
TOTAL				2.00	-	(2.00)

DIRECTOR GROWTH, ASSETS & ENVIRONMENT

Item No	Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change
			17/18 £'000	18/19 £'000	19/20 £'000
AE1	OTHER It is proposed to make the existing temporary regeneration post a permanent role	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). There is a lack of officer resources to deliver on the complex and increasing agenda and wide range of projects. It is now recognised that the CIS will result in additional work and projects and therefore the need for capacity to deliver remains. It is considered that a permanent role will be necessary. Staffing costs associated with the capital programme / disposal, creation or acquisition of assets can be capitalised	-	-	45.00
AE2	OTHER Recharge to Capital Programme	Reflects impact of reduction in income from sale of recyclate	-	-	(45.00)
AE3	OTHER Revised Waste Management arrangement costs	Following a procurement exercise, annual saving made in contract hire costs	60.00	-	-
AE4	SAV Replacement contract for the operational vehicle fleet	Mitigation of the reduction in recycling credit payments from Staffordshire County Council (SCC) arising from savings budgeted within their MTFS, c. £223k p.a. from 2019/20 (& potentially earlier)	(60.15)	-	-
AE5	VFM Targeted income from implementation of charge for Green Waste service pending finalisation of the current review and detailed report to Full Council for approval	Rental income from the Mental Health Trust for Marmion House accommodation	-	(245.00)	-
AE6	VFM Rental income from letting of vacant accommodation within Marmion House	Service Charge income from the Mental Health Trust for Marmion House accommodation	-	(46.00)	-
AE7	VFM Service Charge income from letting of vacant accommodation within Marmion House	Recruitment of Officer to manage the operation of the service	21.55	1.13	1.15
AE8	CORP Tamworth Enterprise Centre - Staffing Costs	Revised income levels following review of the service delivery	(18.49)	(20.03)	(7.36)
AE9	SAV Tamworth Enterprise Centre - Revised operational savings	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(20.75)	(21.72)	(21.26)
AE10	SAV An increase in the vacancy allowance				
Total New Items / Amendments			(17.84)	(377.62)	(27.47)

STAFFING IMPLICATIONS

Item No	Proposal/(Existing Budget)	Implications	17/18	18/19	19/20
			FTE	FTE	FTE
AE1	OTHER It is proposed to make the existing temporary regeneration post a permanent role	Base budgets are already in place for the role until 31st March 2019.			1.00
AE8	CORP Tamworth Enterprise Centre	Recruitment of an officer to manage the new BEC	1.00		
TOTAL			1.00	-	1.00

HOUSING REVENUE ACCOUNT

Item No		Proposal/(Existing Budget)	Implications	Budget Change	Budget Change	Budget Change	Budget Change	Budget Change
				17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	21/22 £'000
HRA1	STAT	Apprenticeship Levy	Amount required under Government legislation (HRA impact)	10.00	-	-	1.00	-
HRA2	VFM	Negotiated savings in Pensions costs arising from Advance payment	Option to pay 3 years pension lump sum element in advance in april 2017 (£157k saving - £37k HRA)	-	(37.00)	37.00	-	-
HRA3	SAV	An increase in the vacancy allowance	An increase from 5% of salary budgets to 7.5% over 5 years – 0.5% increase p.a	(13.54)	(14.05)	(14.47)	(15.57)	(16.30)
HRA4	SAV	Replacement contract for the operational vehicle fleet	Following a procurement exercise, annual saving made in contract hire costs	(3.85)	-	-	-	-
Total New Items / Amendments				(7.39)	(51.05)	22.53	(14.57)	(16.30)

STAFFING IMPLICATIONS

Item No		Proposal/(Existing Budget)	Implications	17/18	18/19	19/20	20/21	21/22
				FTE	FTE	FTE	FTE	FTE
TOTAL				-	-	-	-	-

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2017/18

	Base Budget 16/17	Technical Adjustments	Policy Changes	Budget 17/18	Budget 18/19	Budget 19/20	Budget 20/21	Budget 21/22
	£	£	£	£	£	£	£	£
Income								
Dwelling Rents	(17,678,080)	39,560	-	(17,638,520)	(17,321,460)	(17,008,970)	(17,375,800)	(17,749,310)
Non-Dwelling Rents	(372,460)	12,340	-	(360,120)	(368,630)	(377,360)	(386,300)	(395,470)
Charges for Services and Facilities	(701,860)	(20,330)	-	(722,190)	(728,660)	(734,730)	(744,390)	(754,290)
Contributions Towards Expenditure	(1,634,410)	79,330	-	(1,555,080)	(1,555,830)	(1,556,610)	(1,557,440)	(1,558,290)
Subtotal	(20,386,810)	110,900	-	(20,275,910)	(19,974,580)	(19,677,670)	(20,063,930)	(20,457,360)
Expenditure								
Repairs and Maintenance	4,194,350	104,150	(1,310)	4,297,190	4,408,770	4,523,160	4,655,670	4,791,000
Supervision and Management	6,093,230	61,260	(6,080)	6,148,410	6,220,630	6,358,430	6,453,850	6,545,290
Rents, Rates, Taxes and Other Charges	31,480	4,770	-	36,250	36,800	37,350	37,960	38,590
Increase in Provision for Bad Debts	470,000	(253,600)	-	216,400	251,400	292,000	339,100	393,900
Depreciation and impairment of non-current assets	4,455,900	(930)	-	4,454,970	4,454,970	4,454,970	4,454,970	4,454,970
Debt Management Costs	17,820	7,710	-	25,530	25,330	25,410	25,700	25,990
Subtotal	15,262,780	(76,640)	(7,390)	15,178,750	15,397,900	15,691,320	15,967,250	16,249,740
Net cost of HRA Services per Authority I&E	(5,124,030)	34,260	(7,390)	(5,097,160)	(4,576,680)	(3,986,350)	(4,096,680)	(4,207,620)
Corporate and Democratic Core	8,050	600	-	8,650	8,870	9,090	9,340	9,600
Net Cost of HRA Services	(5,115,980)	34,860	(7,390)	(5,088,510)	(4,567,810)	(3,977,260)	(4,087,340)	(4,198,020)
Interest Payable and Similar Charges	2,882,750	(151,170)	-	2,731,580	2,786,490	2,786,490	2,786,490	2,786,490
Interest Receivable and Similar Income	(103,000)	15,590	-	(87,410)	(66,180)	(97,970)	(126,550)	(126,380)
Surplus/ Deficit for the year	(2,336,230)	(100,720)	(7,390)	(2,444,340)	(1,847,500)	(1,288,740)	(1,427,400)	(1,537,910)

Statement of Movement on the HRA Balance

Surplus or Deficit for the year	(2,336,230)	(100,720)	(7,390)	(2,444,340)	(1,847,500)	(1,288,740)	(1,427,400)	(1,537,910)
Additional Items required to be taken into account:								
Capital Expenditure funded by the HRA	2,704,330	100,000	-	2,804,330	3,254,330	1,754,330	1,754,330	1,754,330
(Increase)/ Decrease in HRA Balances	368,100	(720)	(7,390)	359,990	1,406,830	465,590	326,930	216,420

General Fund Summary Revenue Budget for 2017/18

<i>Figures exclude internal recharges which have no bottom line impact.</i>	Base Budget 2016/17 £	Technical Adjustments £	Policy Changes £	Budget 2017/18 £
Chief Executive	165,530	4,040	(930)	168,640
Executive Director Corporate Services	391,940	(2,550)	(4,150)	385,240
Director of Finance	(776,910)	593,240	228,340	44,670
Director of Technology & Corporate Programmes	901,730	23,600	(2,620)	922,710
Solicitor to the Council	602,110	13,530	12,020	627,660
Director of Transformation & Corporate Performance	877,860	52,680	87,110	1,017,650
Director of Communities, Planning & Partnerships	99,200	(20,120)	(70,470)	8,610
Director of Communities, Partnerships & Housing	1,657,230	62,020	66,760	1,786,010
Director of Growth, Assets & Environment	4,541,130	138,760	(17,840)	4,662,050
Total Cost of Services	8,459,820	865,200	298,220	9,623,240
Transfer to / (from) Balances	(1,724,806)	270,540	-	(1,454,266)
Revenue Support Grant	(1,209,603)	438,607	-	(770,996)
Retained Business Rates	(13,262,270)	8,919	-	(13,253,351)
Less: Tariff payable	10,639,952	(848,244)	-	9,791,708
Collection Fund Surplus (Council Tax)	(81,896)	931	-	(80,965)
Collection Fund Surplus (Business Rates)	560,025	(898,137)	-	(338,112)
Council Tax Requirement	(3,381,222)	162,184	(298,220)	(3,517,258)

General Fund Technical Adjustments 2017/18 (before Policy Changes)

<i>Figures include internal recharges which have no bottom line impact</i>	Budget 2016/17	Technical Adjustments						External Recharge Changes (non-GF Activities) £	Total Adjustments £	Total Adjusted Base 2017/18
		Virements £	Committee Decisions £	Inflation £	Other £	Pay Adjustments £				
Chief Executive	-	-	-	140	140	4,300	(4,580)	-	-	
Executive Director Corporate Services	571,990	(31,460)	-	(2,080)	58,110	(8,360)	(15,800)	410	572,400	
Director of Finance	(307,280)	(26,030)	73,730	2,460	506,790	(10,020)	8,470	555,400	248,120	
Director of Technology & Corporate Programmes	16,790	-	-	11,930	42,000	(2,360)	(51,240)	330	17,120	
Solicitor to the Council	789,050	-	-	4,660	4,150	3,200	25,900	37,910	826,960	
Director of Transformation & Corporate Performance	268,590	57,490	-	2,860	43,700	7,690	(130,680)	(18,940)	249,650	
Director of Communities, Planning & Partnerships	-	-	(20,330)	60	(40)	190	20,270	150	150	
Director of Communities, Partnerships & Housing	1,744,930	-	5,780	1,590	46,980	340	8,750	63,440	1,808,370	
Director of Growth, Assets & Environment	5,375,750	-	(24,500)	13,360	139,200	10,900	92,990	231,950	5,607,700	
Grand Total	8,459,820	-	34,680	34,980	841,030	5,880	(45,920)	870,650	9,330,470	

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

HRA Technical Adjustments 2017/18 (before Policy Changes)

<i>Figures exclude internal recharges which have no bottom line impact.</i>	Budget 2016/17	Technical Adjustments						Total Adjustments £	Total Adjusted Base 2017/18
		Virements £	Committee Decisions £	Inflation £	Other £	Pay Adjustments £	External Recharge Changes (non-GF Activities) £		
Director of Communities, Partnerships & Housing	3,974,460	-	-	29,860	(36,170)	47,610	24,690	65,990	4,040,450
Director of Growth, Assets & Environment	(35,730)	-	-	160	(20)	260	(2,030)	(1,630)	(37,360)
HRA Summary	(3,570,630)	-	440,710	97,280	(613,570)	-	-	(75,580)	(3,646,210)
Grand Total	368,100	-	440,710	127,300	(649,760)	47,870	22,660	(11,220)	356,880

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

General Fund 3 Year Revenue Budget Summary

<i>Figures exclude internal recharges which have no bottom line impact.</i>	Base Budget 2016/17 £	Budget 2017/18 £	Budget 2018/19 £	Budget 2019/20 £
Chief Executive	165,530	168,640	170,030	171,430
Executive Director Corporate Services	391,940	385,240	390,630	394,120
Director of Finance	(776,910)	44,670	149,250	(482,340)
Director of Technology & Corporate Programmes	901,730	922,710	914,460	930,810
Solicitor to the Council	602,110	627,660	635,030	642,020
Director of Transformation & Corporate Performance	877,860	1,017,650	988,840	867,440
Director of Communities, Planning & Partnerships	99,200	8,610	9,090	9,570
Director of Communities, Partnerships & Housing	1,657,230	1,786,010	1,798,600	1,737,270
Director of Growth, Assets & Environment	4,541,130	4,662,050	4,198,210	4,102,230
Total Cost of Services	8,459,820	9,623,240	9,254,140	8,372,550
Transfer to / (from) Balances	(1,724,806)	(1,454,266)	(1,589,507)	(745,998)
Revenue Support Grant	(1,209,603)	(770,996)	(493,964)	(184,529)
Retained Business Rates	(13,262,270)	(13,253,351)	(13,600,578)	(14,038,666)
Less: Tariff payable	10,639,952	9,791,708	10,106,733	10,466,231
Collection Fund Surplus (Council Tax)	(81,896)	(80,965)	-	-
Collection Fund Surplus (Business Rates)	560,025	(338,112)	-	-
Council Tax Requirement	(3,381,222)	(3,517,258)	(3,676,824)	(3,869,588)

Appendix H

Council Tax levels at each band for 2016/17

Authority:	Tamworth Council Tax 2016/17	Tamworth Borough Council	* Staffordshire County Council	* Office of the Police & Crime Commissioner (OPCC) Staffordshire	* Stoke on Trent and Staffordshire Fire and Rescue Authority	Total 2017/18	Total Council Tax 2016/17
	£	£	£	£	£		
Demand/Precept on Collection Fund		3,517,258	24,099,608	3,821,217	1,509,415	32,947,498	
Council Tax Band							
A	107.83	111.17	761.69	120.77	47.71	1,041.34	998.90
B	125.81	129.69	888.64	140.90	55.66	1,214.89	1,165.38
C	143.78	148.22	1,015.59	161.03	63.61	1,388.45	1,331.87
D	161.75	166.75	1,142.54	181.16	71.56	1,562.01	1,498.34
E	197.69	203.81	1,396.44	221.42	87.46	1,909.13	1,831.30
F	233.64	240.86	1,650.34	261.68	103.36	2,256.24	2,164.27
G	269.58	277.92	1,904.23	301.93	119.27	2,603.35	2,497.24
H	323.50	333.50	2,285.08	362.32	143.12	3,124.02	2,996.68
% increase	1.99%	3.09%	4.95%	2.00%	1.75%	4.25%	3.16%

* Confirmed:

Staffordshire County Council Cabinet, 1st February 2017 - Strategic Plan and Medium Term Financial Strategy 2017-22 (County Council, 15th February 2017)

Staffordshire Police and Crime Panel 23rd January 2017 - Police and Crime Commissioner for Staffordshire - Draft Budget and Precept 2017/18

Stoke on Trent and Staffordshire Fire and Rescue Authority, 19th January 2017 - Revenue Budget 2017/18 (Fire and Rescue Authority, 15th February 2017)

General Fund Capital Programme 2017/18 – 2019/20

<u>General Fund Capital Programme</u>	2017/18 £	2018/19 £	2019/20 £	Total £
Technology Replacement	77,000	60,000	60,000	197,000
Business Improvement District (BID) Software	17,400	-	-	17,400
Contingency - Self Service 17/18	115,000	-	-	115,000
Contingency - Civil Contingencies Technology 17/18	19,000	-	-	19,000
New Time Recording System 17/18	15,000	-	-	15,000
Contingency - Refurbishment Marmion House Reception	100,000	-	-	100,000
Contingency – Play Area	60,000	-	-	60,000
Private Sector Grants - Disabled Facilities Grants	250,000	250,000	250,000	750,000
CCTV Camera Renewals (£15k)	15,000	15,000	15,000	45,000
Street Lighting	2,600	3,100	28,200	33,900
Cultural Quarter - AR	1,580,000	2,592,830	-	4,172,830
Gateways	170,000	70,000	-	240,000
Total General Fund Capital	2,421,000	2,990,930	353,200	5,765,130
<u>Proposed Financing:</u>				
Grants - Disabled Facilities	224,000	224,000	224,000	672,000
Section 106 Receipts	100,000	-	-	100,000
General Fund Capital Receipts	223,100	301,500	-	524,600
Sale of Council House Receipts	113,700	192,600	129,200	435,500
General Fund Capital Reserve	180,200	-	-	180,200
Grants - Assembly Rooms (HLF)	316,000	339,690	-	655,690
Grants - Assembly Rooms (SLGF)	1,264,000	654,480	-	1,918,480
Public Contributions (Assembly Rooms)	-	50,000	-	50,000
Unsupported Borrowing	-	1,228,660	-	1,228,660
Total	2,421,000	2,990,930	353,200	5,765,130

Housing Capital Programme 2017/18 – 2021/22

<u>Housing Revenue Account Capital Programme</u>	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	TOTAL £
Structural Works	100,000	100,000	100,000	100,000	100,000	500,000
Bathroom Renewals	795,540	817,420	839,900	850,000	850,000	4,152,860
Gas Central Heating Upgrades and Renewals	514,000	420,000	550,000	460,000	460,000	2,404,000
Kitchen Renewals	944,710	970,690	997,380	900,000	900,000	4,712,780
High Rise Lift Renewal	349,990	-	-	-	-	349,990
Energy Efficiency Improvements	50,000	-	-	-	-	50,000
Major Roofing Overhaul and Renewals	161,080	165,510	170,060	174,310	174,310	845,270
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	-	-	-	1,050,000
Neighbourhood Regeneration	100,000	-	-	-	-	100,000
Disabled Facilities Adaptations	315,960	324,650	333,580	341,920	341,920	1,658,030
Retention of Garage Sites	150,000	500,000	500,000	-	-	1,150,000
Capital Salaries	201,330	176,840	180,730	180,000	180,000	918,900
CDM Fees	5,000	5,000	5,000	5,000	5,000	25,000
Regeneration Schemes						
Tinkers Green	6,640,000	1,634,000	-	-	-	8,274,000
Kerria	1,810,640	3,805,250	-	-	-	5,615,890
Redevelopment of Garage sites	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
Other acquisitions	500,000	500,000	500,000	500,000	500,000	2,500,000
Total HRA Capital	16,413,250	13,194,360	7,426,650	6,761,230	6,761,230	50,556,720
Proposed Financing:						
Major Repairs Reserve	4,212,610	4,855,110	4,426,650	3,466,230	5,161,230	22,121,830
HRA Capital Receipts	500,000	1,455,000	500,000	1,290,000	-	3,745,000
Regeneration Revenue Reserves	5,008,640	3,516,300	1,300,000	1,355,000	1,210,000	12,389,940
Capital Receipts from Additional Council House Sales (1-4-1)	650,000	450,000	300,000	300,000	390,000	2,090,000
Regeneration Reserve	1,070,000	2,917,950	900,000	350,000	-	5,237,950
Unsupported Borrowing	4,972,000	-	-	-	-	4,972,000
Total	16,413,250	13,194,360	7,426,650	6,761,230	6,761,230	50,556,720

Main Assumptions

Inflationary Factors	2017/18	2018/19	2019/20	2020/21	2021/22
Inflation Rate - Pay Awards	1.00%	1.00%	1.00%	2.50%	2.50%
National Insurance	9.50%	9.50%	9.50%	9.50%	9.50%
Superannuation	16.50%	16.50%	16.50%	16.50%	16.50%
Inflation Rate (RPI)	2.85%	3.03%	3.15%	3.30%	3.30%
Inflation Rate (CPI)	2.50%	2.50%	2.50%	2.75%	2.75%
Investment Rates	0.50%	0.60%	0.75%	1.00%	1.00%
Base Interest Rates	0.20%	0.25%	0.50%	1.00%	1.00%

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 the announcement in the Summer Budget 2015, and is estimated at 2.5% 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 as confirmed within the 4 year Local Government Finance Settlement in February 2016. The impact for the Council was confirmed by DCLG as part of the *Local Government Finance Settlement* in February 2017.
6. Continuation of the New Homes Bonus scheme (at the lower payment levels confirmed following the 2016 consultation) including additional receipts from new developments (including Anker Valley and the Former Golf Course Site);
7. Lower investment income returns due to lower interest rate forecasts;
8. An increase of £5 p.a. in Council Tax - current indications are that increases of 2% or £5 and above risk 'capping' (confirmed as 2% or £5 for District Councils for 2017/18);
9. 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;
10. Annual year-on-year pension cost increases of c. £200k p.a. via the pension lump sum element for past liabilities have been included (following initial indications from the SCC triennial review in 2016).

11. Reduction in rent levels by 1% per the statutory requirement & current indications that sales of council houses will be approximately 50 per annum.
12. Forecasts have been informed by the Bank of England Inflation report (August 2016), HM Treasury – Forecasts for the UK Economy (August 2016), Office for Budget Responsibility Economic & Fiscal Outlook (March 2016). Any significant variances will be considered later in the budget setting process.

Sensitivity Analysis (3 years)

		Risk	Potential Budgetary Effect		
			2017/18 £'000	2018/19 £'000	2019/20 £'000
Pay Award / National Insurance (GF)					
Impact +/- 0.5% Variance					
£'000		L	44	87	132
Budget Impact over 1 year		L	44		
Budget Impact over 3 years		M	263		
Pay Award / National Insurance (HRA)					
Impact +/- 0.5% Variance					
£'000		L	14	27	41
Budget Impact over 1 years		L	14		
Budget Impact over 3 years		L	82		
Subject to negotiation for Local Government pay (including any protection for low paid employees)					
Pension Costs					
Impact +/- 0.5% Variance					
£'000		L	57	115	173
Budget Impact over 1 year		L	57		
Budget Impact over 3 years		M	345		
3 year agreement in place from 2017/18 - subject to stock market & membership changes					
Council Tax					
Impact on Council Tax income	£'000		17	36	56
Budget Impact over 1 year		L	17		
Budget Impact over 3 years		L	109		
Inflation / CPI					
Impact +/- 0.5% Variance					
£'000		L	48	97	147
Budget Impact over 1 year		L	48		
Budget Impact over 3 years		M	292		
Government Grant					
Impact +/- 1.0% Variance					
£'000		L	38	73	104
Budget Impact over 1 year		L	38		
Budget Impact over 3 years		M	215		

	Risk	Potential Budgetary Effect		
		2017/18 £'000	2018/19 £'000	2019/20 £'000
Investment Interest				
Impact +/- 0.5% Variance £'000	M	260	546	838
Budget Impact over 1 year	M	260		
Budget Impact over 3 years	H	1644		
Key Income Streams (GF)				
Impact +/- 0.5% Variance £'000	L	6	14	22
Budget Impact over 1 year	L	6		
Budget Impact over 3 years	L	42		
Key Income Streams (HRA)				
Impact +/- 0.5% Variance £'000	L	88	175	260
Budget Impact over 1 years	L	88		
Budget Impact over 3 years	H	523		
New Homes Bonus				
Impact +/- 10% Variance £'000	L	32	74	139
Budget Impact over 1 year	L	32		
Budget Impact over 3 years	M	245		
Business Rates				
Impact +/- 10% Variance £'000	L	64	130	197
Budget Impact over 1 year	L	64		
Budget Impact over 3 years	M	391		

Contingencies**Contingencies 2017/18 - 2021/22**

Revenue	2017/18	2018/19	2019/20	2020/21	2021/22
Specific Earmarked &	£'000	£'000	£'000	£'000	£'000
General					
General Fund					
<i>Specific Contingencies</i>					
Waste Management	50	50	50	-	-
<i>General Contingency</i>	100	42	97	-	-
Total GF Revenue	150	92	147	-	-
Housing Revenue Account					
<i>HRA - General Contingency</i>	100	100	100	100	100
Total HRA Revenue	100	100	100	100	100

Capital	2017/18	2018/19	2019/20	2020/21	2021/22
Specific Earmarked &	£'000	£'000	£'000	£'000	£'000
General					
General Fund					
<i>Specific Contingencies</i>					
Contingency - Self Service 2017/18	115	-	-	-	-
Contingency - Civil Contingencies Technology 17/18	19	-	-	-	-
Contingency - Refurbishment Marmion House Reception	100	-	-	-	-
Contingency – Play Area	60	-	-	-	-
<i>General Capital Contingency*</i>	50	-	-	-	-
Total GF Capital	344	-	-	-	-
Housing Revenue Account					
<i>HRA - General Capital Contingency*</i>	100	-	-	-	-
Total HRA Capital	100	-	-	-	-

* Forecast to be re-profiled from 2016/17 Capital Programme

**TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT
POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND
ANNUAL INVESTMENT STATEMENT 2017/18**

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 2017/18 – 2019/20 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 **Security, Liquidity then Yield** (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;
- It is good practice for members to be provided with access to relevant training – so 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.

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 rating element of the Capita Asset Services methodology now focuses solely on the Short and Long Term ratings of an institution. However, 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 meant that sovereign ratings became of lesser importance in the assessment process. Where through the crisis, clients typically used the highest sovereign rating in their criteria, the new regulatory environment has broken 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 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.

4. The proposed Counterparty limits for 2017/18 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.
5. Alternative investment options are under consideration as part of the development of the Commercial Investment and Regeneration Strategy (including any prudential borrowing opportunities) to generate improved returns of c.5% p.a. (plus asset growth) including:
 - Set up of trading company to develop new income streams;
 - Local investment options – Lower Gungate / Solway Close development including the potential to drawdown funding from the Local Growth Fund / Local Enterprise Partnerships (GBS and Staffordshire);
 - Investments in a diversified Property Fund;
 - Investments in a diversified Investment Vehicle (property, shares etc.);

Note: these would represent long term investments of between 5 – 10 years (minimum) in order to make the necessary returns (after set up costs).

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**.

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Background Papers:-	<i>Budget & Medium Term Financial Strategy 2017/18</i>
	<i>Mid-year Treasury Report 2016/17 Council, 13/12/16</i>
	<i>Annual Treasury Report 2015/16 Council, 13/09/16</i>
	<i>Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Statement 2016/17 Council 23/02/2016</i>
	<i>Treasury Management Training slides, 4th February 2015 & 7th October 2015</i>
	<i>CIPFA Code of Practice on Treasury Management in Public Services 2011</i>
	<i>DCLG Guidance on Local Government Investments March 2010</i>
	<i>Local Government Act 2003</i>
	<i>Treasury Management Practices 2017/18 (Operational Detail)</i>

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 policies, estimates and actuals. These reports are required to be adequately scrutinised by committee. This role is undertaken by the Audit and Governance Committee.

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 (MRP) 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).

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 any policies require revision.

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 2017/18

The strategy for 2017/18 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 CIPFA 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.

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 2017/18 – 2019/20

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 members' 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	2015/16	2016/17	2017/18	2018/19	2019/20
£000's	Actual	Probable Outturn*	Estimate**	Estimate	Estimate
Non-HRA	0.631	6.127	2.421	2.991	0.353
HRA	5.512	17.041	16.413	13.194	7.427
Total	6.143	23.168	18.834	16.185	7.780

* Projected at Period 9

** excludes projected slippage from 2016/17

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	2015/16 Actual £m	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Receipts	0.492	2.885	1.487	2.399	0.929
Capital Grants	0.246	3.381	1.804	1.268	0.224
Capital Reserves	2.044	7.097	6.259	6.434	2.200
Revenue Reserves	3.361	6.027	4.312	4.855	4.427
Revenue Contributions	-	0.536	-	-	-
Net financing need for the year	-	3.242	4.972	1.229	-
Total	6.143	23.168	18.834	16.185	7.780

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	2015/16 Actual £m	2016/17 Revised Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement					
CFR – non housing	1.001	1.943	1.885	3.008	2.903
CFR - housing	68.041	70.283	75.255	75.255	75.255
Total CFR	69.042	72.226	77.140	78.263	78.158
Movement in CFR	(0.241)	3.184	4.914	1.123	(0.105)

Movement in CFR represented by					
Net financing need for the year (above)	-	3.242	4.972	1.229	-
Less MRP/VRP and other financing movements	(0.241)	(0.058)	(0.058)	(0.106)	(0.105)
Movement in CFR	(0.241)	3.184	4.914	1.123	(0.105)

* CFR 2014/15 £69.282m

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);

This option provides 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 regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Fund Balances/Reserves	30.110	32.605	26.842	19.395	18.504
Capital Receipts	5.231	11.493	18.895	25.969	25.994
Provisions*	9.023	8.939	8.939	8.939	8.939
Other	0.048	-	-	-	-
Total Core Funds	44.412	53.037	54.676	54.303	53.437
Working Capital**	6.470	7.083	15.547	15.342	12.954
(Under)/Over Borrowing	(3.98)	(7.17)	(12.08)	(13.20)	(13.10)
Expected Investments	46.900	52.954	58.143	56.442	53.294

* 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	2015/16 Actual %	2016/17 Revised Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Non-HRA	0.04	(2.02)	(0.95)	(1.87)	(2.77)
HRA	25.04	39.87	39.23	40.34	40.86

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

£:p	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council Tax - Band D	(0.27)	0.76	(2.36)	3.46	(2.04)

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

£:p	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rent levels	0.02	-	(0.35)	(0.21)	(0.30)

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

Housing Revenue Account Debt Ratios

HRA Debt to Revenue Ratio	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
HRA Debt*	68.041	70.283	75.255	75.255	75.255
HRA Revenues	18.827	18.031	17.979	17.670	17.367
Ratio of Debt to Revenues %	361	390	419	426	433

HRA Debt per Dwelling	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
HRA Debt*	68.041	70.283	75.255	75.255	75.255
Number of HRA Dwellings	4.397	4.380	4.345	4.310	4.275
Debt per Dwelling £	15.474	16.048	17.322	17.463	17.606

* 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 appropriate 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 2016, with forward projections is 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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
External Debt					
Debt at 1st April	65.060	65.060	65.060	65.060	65.060
Expected change in Debt	-	-	-	-	-
Actual gross debt at 31st March	65.060	65.060	65.060	65.060	65.060
The Capital Financing Requirement	69.042	72.226	77.140	78.263	78.158
Under / (over) borrowing	3.982	7.166	12.080	13.203	13.097

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, 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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	65.060	65.060	65.060	65.060
Other long term liabilities	-	-	-	-
Total	65.060	65.060	65.060	65.060

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.

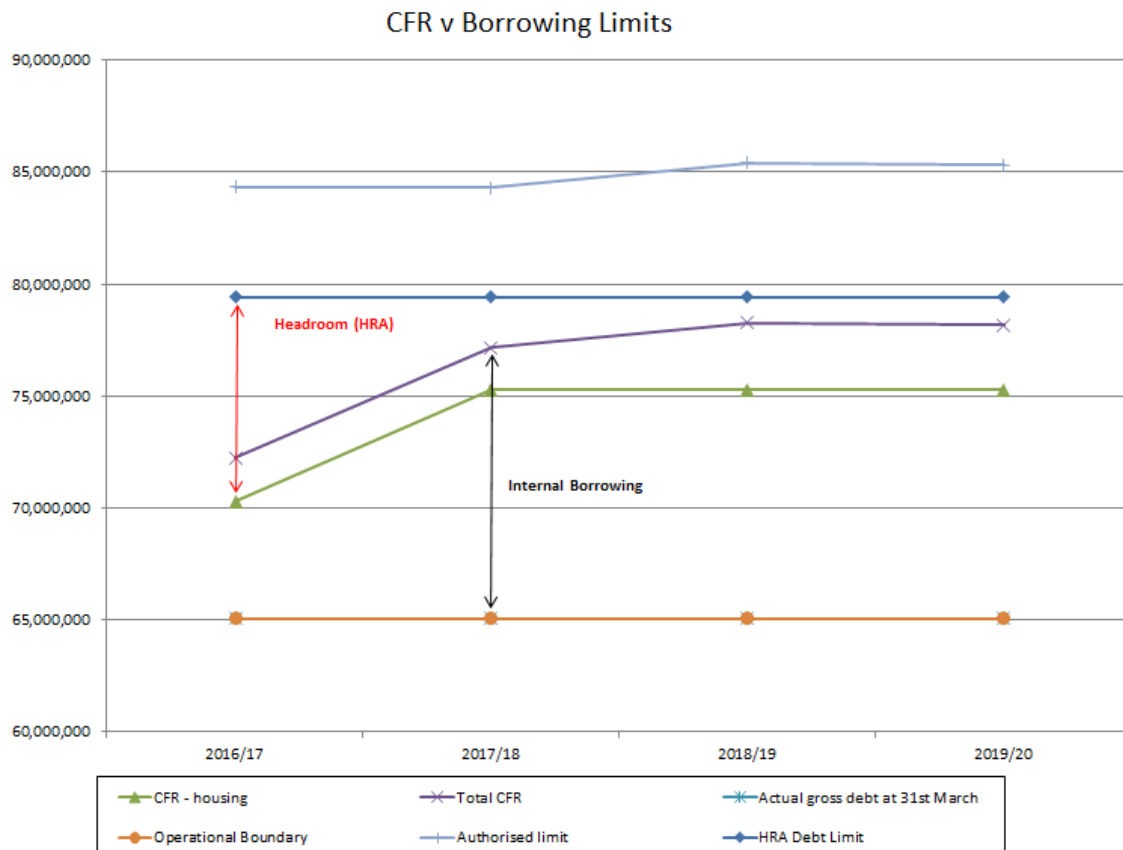
2. The Council is asked to approve the following Authorised Limit:

Authorised limit	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	84.350	84.292	85.415	85.310
Total	84.350	84.292	85.415	85.310

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

HRA Debt Limit	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total	79.407	79.407	79.407	79.407

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.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December, and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause

their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government;
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in 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.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- 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.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference 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 still an issue that needs to be considered..

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to 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	2017/18	2018/19	2019/20
	£m	£m	£m
	Upper	Upper	Upper
Limits on Fixed Interest Rates based on net debt	34.904	31.526	31.526
Limits on Variable Interest Rates based on net debt	6.506	6.506	6.506
Limits on Fixed Interest Rates: Debt only	65.060	65.060	65.060
Investments only	50.260	55.890	55.890
Limits on Variable Interest Rates: Debt only	6.506	6.506	6.506
Investments only	20.104	22.356	22.356

Maturity structure of Fixed Interest Rate borrowing 2017/18		
Timeline	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 and above	0%	100%

Maturity structure of Variable Interest Rate borrowing 2017/18		
Timeline	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 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.

3.7 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council will consider using this new source of borrowing if and when appropriate.

4. Annual Investment Strategy

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 Practices – 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 –' 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 **£10m** with individual institutions, which equates approximately to Capita's recommendation (based on average investment levels of approximately £50m).

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 stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

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	%
2016/17	0.25
2017/18	0.25
2018/19	0.25
2019/20	0.50
2020/21	0.75
2021/22	1.00
2022/23	1.50
2023/24	1.75
Later Years	2.75

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

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			
	2017/18 £m	2018/19 £m	2019/20 £m
Principal sums invested > 364 days	6.000	12.000	20.000

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 to 100 days) in order to benefit from the compounding of interest.

4.5 Icelandic Bank Investments

Glitnir – On 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 £777k, 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.

Heritable – As at the end December 2016, the Council had received £1.475m against our claim of £1.505m, a total recovery of 98%. Negotiations are currently underway to finalise the affairs of Heritable and it is anticipated that a distribution of residual funds may be made over the next few months.

Kaupthing Singer & Friedlander – As at the end December 2016, the Council had received £2.659m 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 March 2017.

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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Interest Rate Forecasts 2016 – 2020

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-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Economic Background

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3rd November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15th December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer

expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November, it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increased in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2%, though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PwLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year

gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016, but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December (for November), was distinctly weak, with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came as expected in December 2016 to a range of 0.5% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled

upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little

fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election**; first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of

sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that \$340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Specified and Non-Specified Investments:**Specified Investments:**

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

These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, 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);
- Supranational bonds of less than one year's duration;
- A Local Authority, Parish Council or Community Council;
- Pooled investment vehicles such as Money Market Funds (MMF's) that have been awarded a high credit rating of AAA by Standard and Poor's, Moody's or Fitch rating agencies.;
- A body that is considered of a high credit quality (such as a bank or building society) and complies with the Capita Asset Services Credit Worthiness criteria; The Council uses a Custodian account with King & Shaxson Ltd and Capita Asset Services to place funds via a pooled investment arrangement with such bodies;

SPECIFIED INVESTMENTS	Minimum 'High' Credit Criteria	Limits
UK Government :- <ul style="list-style-type: none"> • Debt Management Agency Deposit Facility (DMADF) • Gilts • Treasury Bills 	UK Sovereign rating	£10m
Bonds Issued by Multilateral Development Banks	AAA or Equivalent	£10m
Collective Investment Schemes structured as Open Ended Investment Companies (OEIC's):- <ul style="list-style-type: none"> • 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	£10m
Term deposits :- Local Authorities	Defined by Regulation (Sec 23 of the 2003 act)	£10m
Term deposits and Callable deposits :- Banks and Building Societies	In accordance with Capita's Creditworthiness Service up to 'Orange'	£10m individual institutions £14m Group limit
UK Part Nationalised Banks	In accordance with Capita's Creditworthiness Service 'Blue'	£10m individual institutions £14m Group limit
Banks and Building Societies – Forward deals up to 1 year from arrangement to maturity	In accordance with Capita's Creditworthiness Service up to 'Orange' or 'Blue'	£10m

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) . 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	<p>Supranational Bonds greater than 1 year to maturity</p> <ul style="list-style-type: none"> • 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 Reconstruction and Development 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.	<p>AAA Sovereign Rated (1 Rating Agency)</p> <p>AA- Sovereign Rating (2 Rating Agencies)</p>	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.	<p>AAA or AA- Sovereign Rated</p> <p>Capita Asset Services Credit Worthiness rating Blue</p>	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
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.

Ref	Non Specified Investment Categories	Credit Rating	Comment
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.
11	Wider Investment 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	£10m
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	£10m
Bank (a minimum Long Term Credit Rating of A-, a minimum short term credit rating of F1 (or equivalent))	Capita 'Yellow'	3 yrs	£10m
Banks Nationalised/Part nationalised by high credit rated (sovereign rating AAA or AA+) countries	Capita 'Blue' (UK)	Specified in Guarantee	£10m
Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries	Capita 'Blue'	Specified in Guarantee	£10m
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	£10m
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	£10m
Group Limits - Maximum investments in Institutions within the same financial group	As above for individual investment	As above for individual investment	£14m
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 (except for Hong Kong, Norway and Luxembourg).

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K*.

AA-

- Belgium

(Per Capita Asset Services 17/11/16)

* 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 2017/18.

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.

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.

ICELANDIC BANKING SITUATION AS AT 31/12/2016					
	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)			331,000	
	Total of Claim			3,331,000	
	Repayments Received to date			(2,554,432) *	76.69
	Outstanding at 31/12/2016			776,568 **	
	Estimated Remaining			776,568	
<p>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 £777k, 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.</p>					
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 31/12/2016			30,103	
	Estimated Remaining			-	
<p>As at the end of December the Council had received £1.475m against our claim of £1.505m, a total recovery of 98%. Negotiations are currently underway to finalise the affairs of Heritable and it is anticipated that a distribution of residual funds may be made over the next few months.</p>					
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			(2,675,153)	84.25
	Outstanding at 31/12/2016			500,103	
	Estimated Remaining			31,753	
<p>As at the end of December the Council had received £2.659m 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 March 2017.</p>					
Summary					
	Total Principal			7,500,000	
	Interest			511,383	
	Total of Claim			8,011,383	
	Repayments Received to date			(6,704,609)	83.69
	Outstanding at 31/12/2016			1,306,774	
	Estimated Remaining			808,321	
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				
	Total Estimated Recovery (including Outstanding)			7,512,930	
	Total Estimated % Remaining			93.78%	

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 HRA borrowing is unsupported with the balance of the capital expenditure funded from the Major Repairs Reserve, 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 2017- 18 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 £6m for investments maturing beyond 364 days.