CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

16 FEBRUARY 2017

REPORT OF CORPORATE MANAGEMENT TEAM

COUNCIL/CABINET DECISION

Leader of the Council – **Councillor Cook**

MEDIUM TERM FINANCIAL PLAN UPDATE AND STRATEGY

1. Summary

This is the final report in setting the Council's 2017/18 budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2021.

2. Recommendations

COUNCIL DECISIONS

1. That in accordance with the Local Government Act 2003, Members note that the Section 151 Officer confirms that the following recommendations:

   a) represent a robust budget which has been prepared in line with best practice;
   b) provide adequate working balances;
   c) that the controlled reserves and provisions are adequate for their purpose.

General Fund Budget

2. Approve a 2017/18 Council Tax requirement for Stockton-on-Tees Borough Council of £79,210,742.

3. Approve a 2017/18 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£XXX) of £XXX.

4. Approve the 2017/18 budget and indicative 2017/21 MTFP as outlined in paragraph 85 and the use of balances and reserves as outlined in paragraph 99.

Business Rate Relief System

5. Note the changes introduced in the 2016 Autumn Statement.

Taxation

SBC

6. Approve the Council Tax for Stockton-on-Tees Borough Council prior to Parish, Fire and Police Precepts be increased by 4.9%, which includes the Government Levy of 3% in respect of Social Care, i.e. to £1,457.87 at Band D (£971.91 at Band A).

Fire, Police & Parish

7. The Council note the Police precept of £XXX which equates to a Council Tax of £XXX at Band D (£XXX at Band A).

8. The Council note the Fire precept of £XXX which equates to a Council Tax of £XXX at Band D (£XXX at Band A).

9. The Council note the Parish precepts as set out in paragraph 125 of the budget report.

Capital

10. Approve the Capital Programme attached at **Appendix A & B.**

Appointment of External Auditors

11. That Public Sector Appointments Ltd are appointed engaged to make the external audit appointment for the Council.

Attendance at Court

12. Authorise the members of the Revenues and Benefits Service outlined in paragraph 108, for attendance at Court under Section 223 of the Local Government Act 1972.

Organisational and HR

13. The Pay Policy Statement attached at **Appendix D** to this report be approved.

Members Allowances

14. Approve that Members allowances are frozen for 2017/18.

Council Tax - Statutory Requirements

15. Members approve the statutory requirements for Council Tax as shown in **Appendix E**.

Treasury Management/Prudential Code

16. Approve the Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators for 2016/17 – 2019/10 as set out in **Appendix F** to the report.

CABINET DECISIONS

17. Cabinet approve and note the Officer Appointments to Outside bodies and governing bodies at **Appendix D(1)**.

3. Reasons for the Recommendations/Decision

To update Members on the Council’s financial position.

4. Members’ Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Council’s code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code**.**

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the Council he/she must then**, in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise **(paragraph 19** of the code**)**

Members may participate in any discussion and vote on a matter in which they have an interest, as described in **paragraph18** of the code, where that interest relates to functions of the Council detailed in **paragraph 20** of the code**.**

Disclosable Pecuniary Interests

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 21** of the code.

Members are required to comply with any procedural rule adopted by the Council which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 22** of the code).

AGENDA ITEM

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16 FEBRUARY 2017

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Leader of the Council – **Councillor Cook**

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CABINET DECISIONS

17. Cabinet approve and note the Officer Appointments to Outside bodies and governing bodies at **Appendix D(1)**.

DETAIL

1. The MTFP report for 2017/18 to 2020/21 is attached. The report outlines the Council Tax proposals and budget for 2017/18 and the indicative MTFP for the next three years.

2. The report updates the position from that reported to Cabinet and Council in February 2016 and in particular reflects implications arising from the Autumn Statement and the Local Government Finance Settlement for 2017/18.

3. The Provisional and Final Financial Settlements have provided indicative funding allocations for the next three years which outlines further funding reductions which will make the difficult financial position faced by the Council even more challenging.

4. Members will be aware that the Council has a strong track record of prudent financial management and delivering savings early. This has enabled the use of reserves to support a planned and managed approach to addressing the financial challenges and this will continue.

5. The report also outlines future changes to Local Government Finance, most noticeably the proposal to move to 100% of business rates retained by Local Authorities. These are potentially major changes which are likely to have an impact on council funding. This means that the position for 2020/21 onwards outlined in the report needs to be treat with some caution.

COMMUNITY IMPACT IMPLICATIONS

6. The report was not subject to a Community Impact Assessment. The report does not seek approval for a new policy and an assessment was taken on the MTFP report submitted as part of the 2009/10 budget cycle.

FINANCIAL AND LEGAL IMPLICATIONS

7. To update the MTFP position for 2017/18 – 2020/21 and recommend the budget for 2017/18.

RISK ASSESSMENT

8. This review of the MTFP and projected outturn report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

COUNCIL PLAN POLICY PRINCIPLES AND PRIORITIES

9. Deliver a balanced and sustainable Medium Term Financial Plan.

CORPORATE PARENTING IMPLICATIONS

10. No direct implications.

CONSULTATION, INCLUDING WARD COUNCILLORS

11. Consultation will be undertaken as part of the lead in to setting the 2017/18 budget.

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MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2017/18

CONTENTS

SECTION 1 - BACKGROUND AND CONTEXT

Approach to Financial Management

1. Members will be aware from previous reports of the level of Government funding reductions in recent years and the significant challenges that this presents and the total reduction in Government funding between 2010/11 and 2019/20 is now £75m, (62% in cash terms) or 82% in real terms.

2. The Council has recognised for a number of years the financial challenges and the need to prepare well in advance. Our approach to financial planning over the long-term has allowed us to plan ahead and has meant that we have been able to operate a managed approach to delivering savings and wherever possible protect front-line services. This includes opportunities for Invest to Save and exploring alternative models of service delivery.

3. The Council has a long history of providing value for money and delivering strong financial management which has again been reinforced by the External Auditor in his report to Cabinet in January 2017 which stated:

   "The Council put in place proper arrangements to secure economy, efficiency and effectiveness in its list of resources for the year." The report recognises that the Council faces future challenges but goes on to say that "*the Council continues to have a strong approach in considering a range of options, regularly updating and agreeing its plans. As we have seen in recent years, the Council is exploring different service models to preserve service delivery along with financial stability."*

   As part of this approach, there is a strong track record of delivering savings and efficiencies and the Council will therefore be well prepared for the challenges ahead.

4. The approach has meant that savings have been delivered in a planned and managed way, most recently through series of reviews approved by Council in September 2015 as part of the Big Picture Programme. Incorporating that programme, the Council will have delivered savings of over £46m by 2019/20. The Council has tried to protect front line services wherever possible and significant elements of the programme have been delivered through:

   - Freezing budgets and changes to employee terms and conditions
   - A programme of Efficiency, Improvement and Transformation Reviews, covering all service areas
   - Members scrutiny reviews
   - Innovative changes to delivery models delivering savings (e.g. Xentrall / Spark of Genius)
   - Reductions to Members Allowances including fewer Cabinet, Chair and Vice Chair positions, reducing special responsibility allowances and freezing all allowances since 2013/14
   - Use of reserves to allow invest to save schemes such as the Street Lighting replacement programme.
   - A focus on 'Big Ticket' areas of spend to stem growth and deliver savings.
   - Reviews of management to reflect different ways of working across the organisation and its inevitable 'shrinkage'.
   - Reduction in processing, organisational support and administration.
   - Utilising technology to improve service efficiency

5. The delivery of savings becomes ever more challenging and the report to Council in September 2015 recognised that the Council would need to explore opportunities for using technology to review and streamline processes and the programme assumes savings are delivered in a number of areas. The report also acknowledged that the Council cannot

continue to provide all services at the same level in the same way and to the same standards. A number of reviews have reported throughout the year and these have reflected the need to target services to areas of most need and in particular to protect the most vulnerable.

SECTION 2 – NATIONAL CHANGES

Government Funding

6. The Provisional Local Government Finance Settlement was announced on 15 December and the key issues which impact on the Council's financial position are outlined below. At the time of the publication of the report the Government have not published the Final Settlement but have indicated that we should continue to use provisional information for planning purposes. Any differences will be reported to Members as part of regular financial updates.

   New Homes Bonus - DCLG announced their long awaited response to the consultation on the New Homes Bonus, together with 2017/18 allocations. Despite Stockton and many other councils raising concerns, the scheme will change and have a detrimental impact. Crucially, the scheme will now only reward growth above a certain threshold and this has been set at 0.4%, the highest of the options outlined in the consultation. Payments will now also only be received for 5 years in 2017/18 reducing to 4 in 2018/19 onwards as opposed to the current 6 year arrangement. We were already anticipating a reduction in payments of £1.9m by 2019/20, and this change will increase the reduction by £1.6m by 2020/21. The government is also considering options to further reduce NHB for homes built after appeal and where a council is deemed not to have a robust local plan.

   Adult Social Care Support Grant **–** A grant of £849,000 will be received in respect of Adult Social Care for one year only in 2017/18. This partly offsets the reduction in New Homes Bonus, but the table below outlines the pressure on the MTFP:

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Government Funding Reductions :				
New Homes Bonus	1027	794	1,152	1,592
Adult Social Care Support Grant	(849)	0	0	0
Total Reduction	**178**	**797**	**1,152**	**1,592**

7. Members will recall that Government introduced a precept of 2% on Council Tax to support Adult Social Care and indicated that this would be set at 2% per year until 2019/20. The Provisional Settlement changes the terms of this precept for the period 2017/18 to 2019/20. Local authorities will now be able to increase the Precept by up to 3% per annum in 2017/18 and 2018/19. However, authorities that go ahead with the 3% increase each year for 2017/18 and 2018/19 will not be able make a further increase in 2019/20 (i.e. the total allowable increase over the three-year period remains at 6%).

8. Whilst there is no long term benefit to front loading the increase, it would provide additional resource in the next two years to partly offset the reductions in New Homes Bonus payments and to support pressures around Social Care. This will be discussed further in Section 4**.**

National Measure - Core Spending Power

9. The Government have again presented the Settlement information in terms of a measuring "Core Spending Power" with the headline being that this shows an increased Spending Power for Local Authorities by 2019/20.

10. The table below, published as part of the Provisional Settlement, demonstrates the Spending Power Calculation between 2015/16 and 2019/20.

Illustrative Core Spending Power for Stockton Borough Council					
	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Settlement Funding Assessment*	67.2	58.3	51.7	48.1	44.6
Council Tax of which;	69.9	74.2	79.1	84.3	89.8
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	69.9	72.8	76.1	79.5	83.1
additional revenue from referendum principle for social care	0.0	1.4	3.0	4.8	6.7
Potential additional Council Tax from £5 referendum principle for all Districts	0.0	0.0	0.0	0.0	0.0
Improved Better Care Fund	0.0	0.0	0.2	2.7	4.9
New Homes Bonus	4.0	4.7	3.7	2.8	2.7
Rural Services Delivery Grant	0.0	0.0	0.0	0.0	0.0
Transition Grant	0.0	0.0	0.0	0.0	0.0
The 2017-18 Adult Social Care Support Grant	0.0	0.0	0.8	0.0	0.0
Core Spending Power	**141.0**	**137.2**	**135.5**	**137.8**	**142.0**
Change over the Spending Review period (£ millions)					0.9
Change over the Spending Review period (% change)					0.6%

11. It should be noted that the position for 2018/19 onward is indicative but the table demonstrates that the Government's headline figure shows:

- Reductions in Settlement Funding Assessment of 34%, a £23m reduction by 2019/20.

- Indicative allocations for additional income from the Better Care Fund of £4.9m by 2019/20 but an indicative reduction of £2m in New Homes Bonus. Our projections indicate that the actual reduction in New Homes Bonus will exceed that set out in the Government's figures by £1m by 2019/20.

- Assumed Council Tax increase of £13m which is based on a 1.75% increase plus taxbase growth. The Government have again assumed a notional level of taxbase growth which is significantly above our local experience and expectations.

- An assumption that the Council will implement the Social Care levy generating £6.7m by 2019/20.

- Effectively, Government funding reductions are balanced by assumed increases in Council Tax, which are extremely optimistic, and includes the new Social Care levy.

Business Rate Revaluation

12. A national revaluation of business rates will be implemented with effect from April 2017. The draft list for Stockton indicates an overall decrease of 0.4% in rateable values compared with the current list from 2010. It should be noted that the rateable value for one property, Virgin Media, has increased by 324% which has the effect of distorting the overall position. Under the business rates retention system, the ongoing appeal in respect of this specific property represents a significant financial risk to the Council, and one which has increased in scale as a result of the revaluation.

Within the business rates retention system the baseline and top up/tariff amounts have been amended to reflect the revaluation in 2017. The adjusted amounts are intended to make changes in rateable value revenue neutral for individual authorities; with changes to authorities' NNDR Baseline (and therefore tariff/top up) being equal and opposite to the forecast change in the ability to raise business rates locally. As a result of the 2017 revaluation Stockton has moved from being a tariff authority to one in receipt of a top-up.

SECTION 3 - FINANCIAL POSITION TO 31 DECEMBER 2016

SERVICE POSITION

13. The following table details the projected budget outturn position for each directorate in 2017/18, based on information to 31 December 2016. The reasons for any significant variances (In excess of £100,000) are set out for each directorate below. Officers will continue to manage budgets carefully and explore opportunities to reduce the projected pressure. At the current time however, this in year pressure will require to be funded from revenue balances. The review of the MTFP elsewhere in this report addresses the longer term position.

Directorate	**Annual Budget £'000**	**Projected Outturn £'000**	**Projected Variance Over/(Under) £'000**
Children's Services	33,041	34,964	1,923
Adults and Health	70,644	69,701	(943)
Community Services	18,200	18,977	777
Economic Growth & Development	13,967	14,364	397
Culture, Leisure and Events	8,097	8,161	64
Finance & Business Services	7,848	7,745	(103)
HR, Legal and Communications	3,462	3,411	(51)
Democratic Services, Xentrall and Corporate areas	14,617	14,262	(355)
Total	**169,876**	**171,585**	**1,709**
Projected savings on organisation wide elements: Staff Travel & Subsistence/Staff turnover/vacancies	**0**	**(470)**	**(470)**
Revised Total	**169,876**	**171,115**	**1,239**

Children's Services

14. The pattern of pressures around Looked After Children reported for the first two quarters is still evident, particularly relating to the rising number and complexity of external residential placements. Based on current projections, expenditure at year end is expected to exceed the overall budget and growth allocation by £1,654,000. This position would have been considerably worse without the places provided by the Joint Venture with Spark of Genius.

15. A small number of children requiring 24/7 care in the home whilst ongoing court proceedings are taking place to determine longer term plans are receiving specialist domiciliary care services at a cost of £360,000.

16. The expected reduction in Education Services grant in 2016/17, due to schools converting to academies, is currently being offset by vacancies within the Psychology and Advisory Services and Members will be aware from the report to Cabinet in January this area is currently being reviewed. Pressures in social care costs, due to the need to employ agency staff, are offset by savings being made in Youth Services due to vacant posts pending the implementation of the review.

Adults and Health

17. The recent pattern of increasing take up of Direct Payments (£170,000) and of demands for Domiciliary Care Services (£415,000) continues, together with growth in Extra Care (£120,000) and Learning Disabilities Services (£350,000). This pressure is being offset by additional client income of £615,000, reduced costs of residential placements in Mental Health of £505,000 and savings on Housing Related Support in advance of a wider review (£120,000).

18. Specific funding in respect of Carers Services (£77,000) will now be utilised in 2017/18 and is therefore carried forward as a specific managed surplus (paragraph 31).

19. Public Health funding contributes to prevention agendas across the Authority and a projected underspend of £890,000 is anticipated.

Community Services

20. Pressures evident at the second quarter continue to be experienced. These include:

- The increasingly competitive market has meant the level of external works around HVE have reduced by around £190,000.

- Increased demand and cost pressures within Community Transport have been reported to members previously. A review of this service has been undertaken and reported to Cabinet, and whilst this identified some savings and a new policy was approved, there is a pressure of £800,000. An element of this pressure relates specifically to the Easter Holiday profile in 2016/17 but an underlying pressure of £570,000 remains.

- The income levels around the Community Safety Service are challenging and there is a £240,000 pressure in this area. A review of this service has recently been implemented which will reduce the pressure going forward.

These pressures are partly offset by the following:

- The Catering Service will generate a surplus projected at £270,000, although there could however be an impact on this service with the trend of Academies re-tendering the service.

- External work undertaken by Highways Maintenance will generate income of £780,000.

21. Pressures on Waste Disposal, due to increases in tonnage and reduced recycling income, continue to be experienced, but at a reduced level of £430,000.

Economic Growth and Development

22. The main variance is in relation to the street lighting LED project. Members will recall from previous reports that this project is investing in the Council's street lighting including changes to LED which will deliver savings of £1.8m per year. Some re-profiling of work has been necessary to co-ordinate with Northern Powergrid who are responsible for the electricity connections. This has led to a delay in delivering some of the savings in the current year, however the Council has now made alternative arrangements for the electricity connections which will assist with minimising further complications of external parties and the project remains on course to deliver the savings across the MTFP. The capital elements of the project are covered in paragraph 96.

Culture, Leisure and Events

23. The pressures identified earlier in the year are now largely offset by staff savings due to vacancies.

Finance & Business Services

24. No significant variances identified in the first nine months of the financial year.

HR, Legal and Communications

25. Funding of £157,000 in respect of the Marketing and Innovation Fund will now be utilised in 2017/18 and is therefore identified as specific managed surplus.

26. No other significant variances identified in the first nine months of the financial year.

Democratic Services, Xentrall and Corporate

27. Funding and expenditure for corporate items is accounted for under this Directorate, together with the budget position for Democratic Services and Xentrall.

28. As reported previously, the Council is experiencing a significant reduction in the level of income it receives on investments following the European Referendum decision and the recent Bank of England base rate cut. A shortfall of a minimum of £200,000 is anticipated in 2016/17. In year this shortfall in investment income will be offset by underspending against other corporate budgets and the long term impact is covered in paragraphs 86 - 90.

29. Following the introduction of the National Living Wage, funding of £2,000,000 was identified in 2016/17 to meet the projected costs, largely resulting from increases in external care fees. It is currently expected that £1,890,000 will be required, leading to a saving of £110,000.

Managed Surplus

30. The report to Cabinet in January 2017 set out the position regarding the remaining balance of managed surplus funds. In summary, of the remaining balance, £1,234,000 is earmarked to support specific expenditure in future years (2017/18 onwards), leaving a small unallocated balance of £81,000.

31. In addition, a small number of priorities for carry forward of managed surplus funding have been identified (see paragraphs 18 and 25 above):

    Market Development and Innovation Fund - £157,000
    Carers Funding (Adults) - £77,000

    This funding will be carried forward to fund these specific priorities in 2017/18.

OVERALL REVENUE POSITION/GENERAL FUND BALANCES

32. This report documents continued evidence of a number of financial pressures in 2016/17. These areas are subject to rigorous management review and mitigating actions are being taken wherever possible. However, it is prudent to set out how such pressures would be funded and this is addressed in paragraph 34 below.

33. The Council aims to retain General Fund balances at a prudent level, currently £7.9m. As reported to Cabinet previously, the level of balances currently exceeds the recommended level by £1,459,000 and this sum is therefore available to support the MTFP.

34. This report identifies that expenditure is projected to exceed budget in 2016/17 by £1,239,000 for the reasons identified. Remedial action will be taken to mitigate this figure as far as possible, but should this not be possible, the shortfall will be funded from available balances as set out below:

	£'000
Available balances in excess of required level	1,459
Projected Call on Balances in 2016/17	(1,239)
Revised level of available balances	**220**

SECTION 4 - 2017/18 COUNCIL TAX LEVELS INCLUDING ADULT SOCIAL CARE LEVY

Core Council Tax

35. Members will be aware in previous years, the decisions taken around Council Tax increases considered the long-term impact of decisions and reflected the commitment to a planned and managed approach of the Council's financial position.

36. In previous years the Council has made decisions to increase Council Tax as opposed to freezing Council Tax levels. If these decisions had not been taken, the financial pressure facing the Council would be approximately £3.4m higher than that outlined in this report.

37. Given the increasingly challenging financial position, the current MTFP assumes a 1.9% increase. If Members opted to freeze core Council Tax for 2017/18, the impact would be an additional pressure of approximately £1.5m and would make the difficult position even more challenging. It is therefore recommended that Council increase the core Council Tax by 1.9%. This would mean a 34p per week increase in Band A (51p at Band D).

Council Tax Levy for Social Care

38. Members will be aware that in 2016/17 the Council reluctantly implemented the Governments Social Care levy of 2% to fund the growing demands and pressures in Social Care. Despite continued lobbying from within the Local Government Sector around pressures relating to Social Care, again no long term additional funding has been identified by Government to support these pressures.

39. Paragraph 7 outlines that Government have indicated that Councils can change the phasing of the increase in precept from the previous suggestion of 2% per year in 2017/18, 2018/19, 2019/20 to 3% in 2017/18, 2018/19 but 0% in 2019/20. Whilst this would not provide any long term benefit, it would provide additional funding over the next 2 years of £750,000 and £1.6m respectively to support the Council in managing the pressures.

40. The Council continues to experience significant costs and pressures in Adult Social Care and whilst every effort is being made to manage demand pressures, we are incurring costs in relation to the Government's National Living Wage commitment, new Deprivation of Liberty Safeguards (DoLS) responsibilities together with Care Fee increases, all of which are discussed elsewhere in the report.

41. It is therefore with reluctance that the Council again implements the Governments levy for Adult Social Care at 3% which will result in a further increase of 53p per week (Band A) and 80p per week (Band D). The impact of the total increase of 4.9% would be 87p per week (Band A) and £1.31 per week (Band D).

SECTION 5 – MEDIUM TERM FINANCIAL PLAN 2017-21

42. The current MTFP approved by Council in February 2016 can be summarised below:

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Budget Gap	14,055	17,545	20,444
Big Picture Savings Programme	(8,145)	(12,445)	(13,035)
Growth Reduction Target	(3,336)	(4,178)	(5,403)
Reserves	(2,574)		
Total	**0**	**922**	**2,006**

The plan indicated a budget gap of approximately £20m by 2019/20, This included an estimated £5.4m of growth in Adult and Children's social care demand and savings associated with the Big Picture Programme of £13m.

43. The plan has been reviewed and updated and also rolled forward to show the position for 2020/21, The position is outlined below and this includes :
- Impact of Government funding changes
- New pressures and spending requirements
- Savings identified
- Update of Adult and Social Care Growth Pressures
- Mitigating actions to balance the MTFP, including an update to the savings programme.

44. It should be noted that the position for 2020/21 is extremely indicative and is highly likely to change. 2020/21 is anticipated to be the first year of the revised system for Local Government Finance which will be based on 100% retention of business rates and there is still significant uncertainty over how this will operate and if there will be any impact on individual Councils. Some points to note are:

- An initial consultation exercise was undertaken in 2016 and further consultation is expected in 2017.
- The process will also include a re-assessment of need to revise 'baseline assessments' for Councils.
- The 100% retention is at a National Level with an initial redistribution to match need.
- There is a lack of clarity over how appeals will be dealt with in the new system and this is a key issue for this Council. Members will be aware of the level of risk associated with Virgin Media.

Government Funding

45. Paragraph 6 outlined the impact of the Provisional Local Government Finance Settlement on the Council and this needs to be incorporated into the MTFP. This is an additional pressure of £178,000 in 2017/18 rising to £1.59m by 2019/20.

New Pressures and updates

46. Whilst the Council are focussed on delivering savings against the plan, despite robust financial management there will inevitably be pressures which are unavoidable and need to be addressed. Many of the issues have been reported in the current financial year and need to be incorporated into the Medium Term Financial Pan. These together with a number of other changes are discussed below.

47. The pension fund has recently been subject to an actuarial review. Whilst this is not an ideal time for such a review to be undertaken as it is based on many assumptions, including the performance of the economy and investment returns, this is a statutory requirement. There have been significant challenges made to the assumptions and the rates emanating from the review but the outcome is that the rates will increase by approximately 1.5% over the next 3 years meaning a pressure of £600,000 in 2017/18 rising to £900,000 from 2019/20.

48. The Council has been in detailed negotiations with Care providers regarding fee increases in respect of residential care. This has been a long and complicated process and involved an open book approach with providers. Consultation has now concluded and a report will be presented in March updating members on the position and recommending final fee levels. This is estimated to cost approximately £1.25m, which is in excess of the amount currently earmarked in the MTFP by £350,000. There will also be one off costs estimated of £4.5m given that the fee levels need to be backdated to 2012 and this is addressed in Section 7.

49. Paragraph 20 outlines the current pressure faced by the Council in providing transport for Education and Social Care. There was also an assumption in the plan from the previous EIT programme that this area would deliver savings. Significant work has been undertaken in this area to implement operational efficiencies such as reviews of routes, use of taxis, etc. Members will recall a detailed review of this area resulted in revised policies but recognised that costs in these areas had continued to grow and that there were no obvious means of delivering savings through policy changes. The combination of these issues means a pressure of £880,000.

50. Waste Disposal costs are increasing due to increased tonnages and costs of disposal and this was covered in paragraph 21 and is expected to continue creating a pressure of £400,000.

51. Additional resources of £630,000 are to be made available to support additional targeting of resources into our town centres. This will also allow an additional focus on safety when and where required. The physical regeneration of the boroughs town centres provides a positive transformation for our businesses, residents and visitors. It is essential to protect our investment for current and future generation and a key priority has been to invest additional resources in to a range of management and maintenance activities. Dedicated Town Centre Officers have been mainstreamed as part of a wider Civic Enforcement Service and provide additional support at core times including weekends, during the evening and around key event times From a maintenance perspective, the temporary additional resources that have been introduced since in the last two years have worked extremely well with intensive cover for litter control, graffiti and fly-post removal as well as scheduled pavement washing programme. Resources have also been identified to ensure that street furniture is well maintained and replaced where required and this extends to effective maintenance provision.

52. Members will be aware from previous reports of the successful work the Council has undertaken to ensure we enact the requirements of the Deprivation of Liberty Safeguards legislation and will recall the report in December 2016 which outlined a pressure of £750,000 in 2017/18 and £470,000 thereafter.

53. Stockton International Riverside Festival (SIRF) is part funded by Arts Council England (ACE) through a highly competitive national pot. We are currently bidding for the coming 3 years of grants and are seeking an increase in our grant of £300,000 over 3 years. We believe that we need to commit a matching investment in an attempt to secure an uplift at a time when many ACE clients are managing cuts. The real costs of SIRF's international work has gone up significantly due to exchange rate pressures and rising transport and insurance costs and this additional resource is essential to maintain the status of our signature event. In addition, across all our events, as we respond to heightened threat levels for crowds at events, costs for policing, crowd management and road closures have increased significantly. To maintain the scale and impact of key events like SIRF, to support new

events like Stockton Stages and to respond to changing threats, we need to provide additional resource of £175,000 per year.

54. The growth in visitor numbers at Preston Park creates a need for active management of the attraction and a staff presence on the ground to ensure safe and appropriate use of the site. This staff resource will also harness the potential for volunteer work on site maintenance and visitor support. The new management arrangements also allow us to pursue opportunities to increase commercial hire income and commercial partner investment, linked to possible future Heritage Lottery investment.

55. Despite there being delays in the introduction of Universal Credit, and hence the workload of Housing Benefit staff not reducing as was expected, the Housing Benefit Admin Grant is expected to reduce by £150,000 per annum from 2018/19.

56. The Council recognises that with the retention of business rates from 2020 there is a greater onus on understanding the growth and potential of that revenue stream going forward. In order to maximise intelligence and proactively stimulate growth and ambition in the business community the requirement for additional resources has been identified to improve intelligence and information gathering. This is a temporary resource and costs have been identified at £60,000.

57. The projections of the Council Tax base and collection levels have also been reviewed. The current plan assumes 98% collection and the current long term collection rates are higher than this which results in surplus at the end of each year. It is suggested that this rate can be increased to 98.25% and the combination of these factors will generate £750,000 in 2016/17 rising to £1.4m in 2019/20.

58. The Council continue to experience growth in Business Rates which is offset by appeals. The complications this year are compounded by the revaluation of Business Rates across the country and this has seen the receipts for Stockton reduce overall. This should be offset by increases in distribution from Government as part of the ‘tariff’ and ‘top up’ mechanisms. The Council will now move to receive top-up from Government. The longer term projection for Business Rates is extremely uncertain due to the revaluation effective from 1 April 2017 and also the impending move to 100% retention by 2020 as discussed in paragraph 44 and we have assumed that there will be no change to the current income levels.

59. In May 2016 Cabinet and Council approved the principle of development and ownership of a hotel and agreed to use prudential borrowing up to £17m to meet all costs. The report outlined that the borrowing costs would be more than offset by income and profit from the hotel. Excellent progress is being made in developing the project with the trading company now established and agreements now formalised with Hilton (the brand franchise) and Interstate (the operator). A report is elsewhere on the agenda which provides detail on the development and, subject to approval, the costs of borrowing and expected income and profit can now be incorporated into the MTFP and the table below.

60. The above pressures and changes can be summarised as follows and this needs to be incorporated into the plan.

	2017/18	2018/19	2019/20	2020/21
Employers Pension Contribution	600	800	900	900
Residential Care Fees	300	300	300	300
Education and Social Care Transport	880	880	880	880
Waste Disposal Pressure	400	400	400	400
Infrastructure Maintenance	560	590	630	630
DOLS	750	470	470	470
SIRF	175	175	175	175
Preston Park Operation	140	140	140	
HB Admin Grant	50	150	150	150
Business Development	60			
Council Tax updates	-772	-1,073	-1,240	-1,407
Return on Hotel Investment	115	-50	-100	-250
	3,258	**2,782**	**2,705**	**2,246**

Borrowing to Support Infrastructure Investment

61. Cabinet have also recently approved the Council's long term Economic Strategy and Growth Plan for the Borough with a focus on developing a sustainable business base, provision of infrastructure to support the development of the Borough and maximising employment opportunities through increasing skills. Despite the financial challenges, the Council continues to have ambitious plans to regenerate the Borough and will actively explore innovative approaches to investing in new models, an approach commended by our external Auditors.

62. The plan will require investment in infrastructure to support growth, for example in Housing, Employment opportunities and further developing Town centres and the Council will work alongside private and public sector partners including the Combined Authority to bring forward such investment.

63. There has been significant focus on the physical infrastructure of Stockton Town Centre and the transformation of the environment and the effect this has had on new business developments. There is significant private sector investment in the Town Centre, not least the redevelopment of the former Swallow Hotel into a high end student accommodation. This transformation continues and there are a number of significant projects that are ongoing which will further enhance and develop the offer:

- Globe theatre
- Hilton hotel
- Courtyard hotel redevelopment
- Victoria housing project

In many cases Council funding has been used to draw in external funds. The ability to match fund other funding streams is demonstrated by the recent successful Heritage Lottery Bid of £2m for Townscape Heritage which will enable further investment and improvement of a range of buildings. The Council are also developing proposals to develop a Crematorium. This would be owned and operated by the Council and be funded by Prudential Borrowing which would be covered by operating profit. A report will be presented to Cabinet and Council in due course.

64. Previous reports to Cabinet and Council provided members with information in respect of the VAT shelter income in respect of the housing stock transfer to Thirteen Group. Members approved that the receipts should be ringfenced to Housing and Town Centre related regeneration and income up to 2018/19 has been approved. Income will continue beyond

this date and it is estimated that approximately £6m will be received up to 2024. It is also recommended that Council agree the principle of prudential borrowing to support the delivery of the Growth Plan and support the Council's ambitions for developing the Borough and the costs of borrowing £10m have been factored into the plan. Any drawdown of this resource will be subject to further cabinet reports.

Adult and Children Growth Estimates

65. The current plan includes estimated growth and savings which reflects the current strategy that these 'Big Ticket' areas of spend will be subject to focussed effort to mitigate demand growth whilst retaining a focus on providing support to those in most need. This position has been reviewed and the plan updated accordingly.

66. The Children's Strategy and Council Plan identified this area as a key area of work and there are a number of projects under way to consider this issue.

- Continued evolution of the early help model, including a bigger focus on prevention, new approaches to working with families, and a focus on restorative practice;
- Exploring options to increase the capacity of fostering services;
- Introducing an edge of care service to prevent children from having to come into care;
- New approaches to the care of the small number of complex young people;
- The implementation of a regional approach to the commissioning of residential placements.

67. Whilst the work is underway, there continues to be growth pressures in this area and the position for 2016/17 was outlined in Paragraph 14. Given that the numbers of children currently in the Council's care, it will be difficult to achieve the full saving in the immediate future and the expected savings have been reduced by £2.2m in 2017/18 and £1.1m in 2018/19 to reflect this position.

68. Adult services demand growth pressures have been managed over the last few years, although given the ageing population this will become increasingly challenging. The Adult Strategy and Council Plan will focus on intervention and early help building on the multi-disciplinary team approach established through the better care fund alongside a focus on longer term prevention to manage the position.

69. The overall estimated growth which will be regularly reviewed and the sum that needs to be mitigated by 2019/20 is £5.2m and this has been incorporated into the plan.

Savings Identified

70. Members will be aware from the 2016/17 budget report that the Council committed the resource to fund the National Living Wage and this was a significant cost pressure to the Council. Paragraph 29 outlines an in-year underspend. The estimated costs have been re-assessed following the changes in levels proposed by the Government in the Autumn Statement and this is now expected to cost this Council £6m by 2020/21 as opposed to £8m included in the plan.

71. The Combined Authority is currently funded through Local Authority Contributions. The proposal to be presented to the TVCA Board is that in future this will no longer be required as TVCA will be self-sustained utilising funding sources such as devolution and EZ income. This is a significant benefit of devolution agreement and will save the Council £540,000 per annum.

72. Members will be aware that Officers continue to manage budgets diligently and on a prudent basis. There are regularly underspends on employee budgets linked to turnover and position

on salary scale and it is therefore proposed that the allocation included in the MTFP for pay awards of £800,000 is not allocated to services. This will therefore be managed within existing resources.

73. Based on a reduction in the size of the organisation, it is envisaged a further reduction in Senior Management will deliver savings of £225k by 2020/21.

74. The table below summarises the changes required to the plan in respect of savings identified.

Savings	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Living Wage (16/17 element)	-400	-1,200	-1,600	-2,000
Reduced CA Contribution	-540	-540	-540	-540
Pay Award / Travel & Subs clawback	-800	-800	-800	-800
Further Reduction in Senior Management				-225
Savings identified	**-1,740**	**-2,540**	**-2,940**	**-3,565**

Social Care Levy

75. Section 4 outlines the recommendations around Council Tax and the decision to amend the level of the levy will result in additional income in 2017/18 and 2018/19.

Big Picture Savings Programme

76. Members will recall that we have already delivered £34m of savings and the plan includes an estimated additional £13m by 2019/20 which was agreed as part of the Big Picture Programme approved by Council in September 2015, as outlined in paragraph 5. The programme is progressing extremely well with many reviews being complete and having reported to Cabinet. Whilst the programme is not yet finished, it is evident that savings are becoming increasingly challenging to deliver and given this position the programme is now expected to deliver £12.1m and the MTFP needs to be amended to this effect. This will bring the total savings delivered as part of the programme to £46m.

Change to Minimum Revenue Provision Calculation

77. The Minimum Revenue Provision (MRP) Policy forms part of the annual Treasury Management Strategy. Under the policy the Council is required to set aside an amount of its revenue budget to repay its Capital Financing Requirement (CFR). The CFR is the accumulated amount of borrowing the Council will be required to undertake to finance capital expenditure.

78. Prior to 2008 all borrowing was subject to Government approval through the gaining of “credit approvals” which provided the authority to borrow for capital purposes. MRP was set as 4% of the outstanding CFR on a reducing balance basis and an amount to set aside MRP was included within the Revenue Support Grant. Since 2008 MRP has been regulated under the Prudential Code which enables the Council to set its own affordable borrowing limits. MRP on capital expenditure since 2008 has been set in line with the “useful life” of the capital investment.

79. With the phasing out of the Revenue Support Grant, which breaks the link with support for MRP, many councils have taken the opportunity to review their MRP policy in respect of pre 2008 borrowing. Many councils have changed to an alternative repayment profile, using an annuity method, linking the repayments to the remaining useful lives of the capital investment. This has a number of advantages:

- It sets a fixed date by which the CFR will be repaid; currently repayment will take more than 200 years,
- It means future council tax payers will contribute an equivalent sum per annum, after inflation, to current council tax payers. The current method means current payers contribute much higher sums; and,
- It reduces costs over the medium term.

80. It is proposed to adopt a similar policy for Stockton. The adoption of the policy would mean that the amounts previously set aside as MRP are greater than that required under the new policy. Therefore there is an opportunity to reduce the amounts set aside over the life of the MTFP and to set generate revenue savings of £3.48m in 2017/18. A table showing the impact of this MRP change is shown at **Appendix G**. The revised MRP policy statement is included in the Treasury Management Strategy shown at **Appendix F.**

Updated Medium Term Financial Plan 2017-2021

81. The changes to the MTFP are summarised in the table below:

	2017/18	**2018/19**	**2019/20**	**2020/21**
Base Budget Gap - per 2016 Budget Report	10,709	13,367	15,041	16,139
Adult & Childrens Social Care Growth	4,290	4,490	4,890	5,290
Government Funding Changes	93	798	1,156	1,596
New Pressures	3,258	2,782	2,705	2,248
Infrastructure Investment	100	250	540	540
Revised Budget Position	**18,450**	**21,687**	**24,332**	**25,811**
Actions :				
New Savings Identified	-1,740	-2,540	-2,940	-3,565
Social Care Levy Changes	-750	-1600		
Current Big Picture Savings Programme	-7,844	-11,389	-12,119	-12,119
Minimum Revenue Provision Change	-3,487	-3,339	-3,195	-3,056
Adult & Childrens Social Care Growth - Reduction	-2090	-3390	-4890	-5290
Gap	**2,539**	**-571**	**1,188**	**1,783**

82. The table above demonstrates that the budget gap would be £18.5m rising to £25.8m by 2020/21. By implementing the actions outlined above, this would result in a pressure of £2.539m in 2017/18, a balanced position in 2018/19 with the surplus being available to manage the estimated pressure in 2019/20 and 2020/21. The current Medium Term Financial Plan already includes provision of £2.574m use of reserves which will fund the 2017/18 budget gap.

83. Paragraph 44 outlined that the position for 2020/21 is highly indicative given the changes to the business rates system and this will be considered further in subsequent reports.

84. The plan shows a managed position over the medium term but this should not detract from the difficult position the Authority has faced and it is despite the significant reductions in Government funding and by the end of the plan the Council will have delivered direct savings of £46m. The plan still however includes a number of assumptions, challenges and potential risks going forward:

    a. As mentioned above and in paragraph 4, by the end of the plan the Council are on target to deliver £46m of savings, although this is becoming increasingly challenging. Whilst the majority have been delivered there are a number of significant reviews ongoing which need to deliver approximately £4.3m.

b. The plan assumes that growth in Adult Social Care and Childrens Social Care is mitigated and does not cause additional pressures.

c. The impact of Business Rates changes nationally could have a significant impact on the Council from 2020 and this will be evaluated once further detail is available.

d. A report to Cabinet in January 2017 set out a range of options for members to consider, to inform future planning around the role of the Council in education in light of loss of Education Services Grant (ESG) funding and reductions in central funding as schools convert to academies. The Report highlighted that the projected funding gap in 2017/18 is expected to be managed through transitional funding, vacant posts, and use of DSG and one-off monies available. The longer term funding gap will be considered as part of work to develop a long term solution, which is based on a fundamental review of the Council's ongoing role in education.

85. The updated Medium Term Financial Plan can be re-presented in the format below:

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Income				
RSG (inc LCTS)	-14,648	-9,840	-4,995	-3,736
NNDR (incl s31 grants)	-39,888	-40,949	-42,082	-43,445
Council Tax	-79,211	-83,950	-86,268	-88,642
New Homes Bonus	-3,740	-2,204	-1,725	-1,248
Social Care Reform	-849	0	0	0
BCF (incl Pooled Budget)	-10,064	-12,556	-14,824	-14,824
Public Health	-14,278	-13,907	-13,545	-13,545
Total Income	**-162,678**	**-163,406**	**-163,439**	**-165,440**
Expenditure				
Adults & Health	72,966	74,025	75,599	77,368
Childrens Services	33,079	31,484	30,364	30,364
Community Services	18,370	18,331	18,458	18,556
Culture, Leisure & Events	7,749	7,649	7,549	7,409
Democratic Services, Xentrall & Corporate areas	8,579	7,037	8,278	9,247
Economic Growth & Development	13,499	13,439	13,439	13,439
Finance & Business Services	7,673	7,773	7,773	7,773
HR, Legal & Communications	3,302	3,097	3,167	3,067
Total Expenditure	**165,217**	**162,835**	**164,627**	**167,223**
Use of Reserves	2,594			
Revised Budget Position	**-35**	**-571**	**1,188**	**1,783**

SECTION 6 - TREASURY MANAGEMENT STRATEGY AND INVESTMENT INCOME

86. The Council continues to face significant challenge to generate investment income given the current low levels of interest rates. The average returns on our investments are currently below 0.5% with banks not offering increased rates for any long or short term investments. There is little sign of positive improvement in the short term and this could place a pressure

on the medium term financial plan as the plan assumes an improvement in rates in coming years.

87. The Council have recently appointed new advisors, Arlingclose, and based on their advice are exploring mechanisms to maximise investment returns and minimise borrowing costs. The Council will continue to minimise risk but we will consider the timing of borrowing linked to cash flows and also explore alternative investment mechanisms.

88. The Council's Treasury Management Strategy is shown at **Appendix F** and this has been revised to support the need to explore alternative investment opportunities and to reflect the advice of our new advisors. Key changes, including additions to the strategy and investment limits include:

    a. Pooled Funds, which include money market funds, property funds, equity funds and bond funds,
    b. Loans to registered providers and corporate bodies,
    c. Government bonds, and
    d. Bills issued or guaranteed by national governments.

89. Of the above, the Council currently invests in a number of money market funds. Whilst we have not yet invested in property funds, we have started to explore this option. A specific fund exists for Local Authorities, the CCLA Local Authorities Property Fund, and over 160 Authorities currently invest in this fund. Whilst there are other funds available, this fund performs well with returns around 4-5% and has clear accounting benefits (this is the only fund which is not classified as capital expenditure). Subject to agreement of the strategy, it is proposed that we progress to investing in this fund.

90. It is currently envisaged that the reductions in interest due to the poor rates over the medium term will be offset by income from alternative investments and this will be reported to members as part of the regular financial update reports.

SECTION 7 – ONE OFF RESOURCES

One-off Resources

91. Growth in the Council Tax base and successful collection of arrears from previous years has led to a projected surplus on the Council Tax Collection Fund of £2.5m. Paragraph 57 has recognised that given this position, the base budget can be revised.

92. Members will recall that following the privatisation of the probation service, the Council supported the establishment of the Probation CIC and that this required funding of £2m. A report presented to Cabinet in February outlined that the service is now established, performing well and financially sustainable which means that the £2m earmarked for loans to support the establishment of the organisation will no longer be required and can be made available.

93. The Council has retained a reserve for litigation. This has now been reassessed and £1.4m can now be returned to MTFP.

94. The overall position on one-off resources can be summarised as follows:

Source	£'000
General Fund Balances	220
Combined Authority funding Broadband	80
Litigation Reserve	1,400
Reserves	500
Probation CIC funding	2,000
Council Tax Collection Surplus	2,500
Total Resources Available	**6,700**

Calls on One-off Resources

95. The above table demonstrates that there is £6.7m in one off resources available. There are a number of pressures and priorities which need to be considered.

96. Council approved an invest to save scheme in 2014 to replace street lighting columns with LED lighting which was originally estimated to cost £14m and deliver savings of £1.8m per year. The budget report in 2015 reported that savings on procurement were anticipated and that £1.7m could be released back to the MTFP. In hindsight, this may have been premature given the size and complexity of the programme. There have been issues around the connection work through Northern Power Grid which have resulted in additional costs meaning that the project is now expected to underspend by £700,000 as opposed to the £1.7m previously reported.

97. Paragraph 48 outlines the work that has been undertaken around the agreement of care fees. The backdated element of the fees are expected to be around £4.5m and this funding therefore needs to be earmarked.

98. The Council has for a number of years operated a budget for environmental improvements to allow members the ability to invest in minor work and improvements in their wards. This funding expires in this financial year and it is proposed as part of the budget to approve the allocation up until 2019/20 at a cost of £1.2m in order to continue to support investment in works.

99. The table below summarises the recommended uses identified for the one-off funds.

Identified Use	Amount (£'000)
Street Lighting Programme	1,000
Care Fees	4,500
Environmental Improvements	1,200
Total	**6,700**

SECTION 8 – CAPITAL PROGRAMME

100. The current Capital Programme as at 31 December 2016 which includes Housing and Town Centre schemes, School Capital, Transport, Ingleby Barwick Leisure facility, is shown at **Appendix A** and summarised below:

Capital Programme December 2016 BC

CAPITAL PROGRAMME Up to 2020	Current Approved Programme	Programme Revisions	Revised Programme
	£'000	£'000	£'000
Schools Capital	16,533	395	16,927
Housing Regeneration & Town Centres Schemes	16,057	2	16,059
Transportation	19,964	297	20,260
Other Schemes	34,286	87	34,373
Total Approved Capital MTFP	**86,840**	**781**	**87,619**

Reasons for Movements over £100,000

Additional Funding

101. £194,000 17-18 Pothole Action Fund was announced in the 2016 Autumn Statement, this has been added to the Capital Programme.

Following a successful bid to Early Years Capital Fund £394,500 has been added to the Capital Programme to create additional 30hr free childcare provision at High Flyers Nursery.

New Schemes

102. Phase 1 of the England Coastal Path is due to complete by 31 March 2017. £138,080 has been added to the Capital Programme funded by grant from Natural England and third party contributions.

Scheme Revision

103. The updated Capital Programme 2012 – 2019 is attached at **Appendix B**.

SECTION 9 – APPOINTMENT OF EXTERNAL AUDITORS

104. The appointment of external auditors for local government bodies was formerly a function of the Audit Commission under the Audit Commission Act 1998. The Audit Commission was abolished in 2015 and the responsibility for auditor appointments was passed to a new body, Public Sector Audit Appointments Ltd (PSAA), a company set up by the Local Government Association for the purpose. This however is a transitional arrangement and from 2018/19 local authorities will be responsible for appointing their own external auditors. Audit appointments will have to be made by 31 December 2017 to apply from April 2018. Current auditor contracts have been extended until the end of 2017/18.

105. The new requirements are set out in the Local Audit and Accountability Act 2014. This requires local authorities to either:

- Establish a local audit panel to make their auditor appointment. The local audit panel must consist of a majority of independent members and must have an independent chair. The panel must have a minimum of three members of which at least two must be independent, or

- Opt into any sector-led body that may be established as the appointing person under the Local Audit and Accountability Act and relevant regulations. If they decide to do so, the authority will not need an auditor panel.

106. The Audit Committee considered this issue on 28 November 2016. A copy of the relevant report to the Audit Committee is attached as **Appendix C.** The Audit Committee agreed to recommend to Council that that Public Sector Appointments Ltd are appointed to make the external audit appointment for the Council.

SECTION 10 - ATTENDANCE AT COURT

107. Section 223 of the Local Government Act 1972 requires that those post holders who lay complaint, appear at Court, prosecute and defend in all matters relating to the collection and enforcement of Council Tax, Business Rates (NNDR) and the Business Improvement District levy need authorisation from Council. Following the recent merger of the Revenues & Benefits Services new job titles have been introduced therefore a new resolution must be made.

108. It is recommended that the following post holders be authorised to prosecute, defend or appear in proceedings before the Magistrates' Court in relation to Council Tax, Business Rates (NNDR) and BID (Business Improvement District) charges

Director of Finance and Business Support	Revenues & Benefits Manager
Assistant Revenues & Benefits Manager	Collection & Welfare Support Manager
Systems & Service Development Manager	Council Tax & Benefits Manager
Council Tax & Benefits Team Leader	Senior Council Tax & Benefits Officer
Council Tax & Benefits Officer	Enforcement Team Leader
Enforcement Agent	Enforcement Officer
Recovery Team Leader	Recovery Supervisor & Court Officer
Senior Recovery Officer	Recovery Officer
Business Rates Team Leader	Business Rates Officer
Fraud, Visiting & Safeguarding Team Leader	Fraud, Visiting & Safeguarding Supervisor
Fraud & Compliance Officer	Visiting Officer
Systems & Reconciliation Team Leader	Development Team Leader

SECTION 11 - BUSINESS RATE RELIEF SCHEME

109. The 2016 Autumn Statement introduced some additional changes to business rates which will affect the Council's income during 2017/18. These changes include:

- The doubling up from 50% to 100% of the small business rate relief scheme has been made permanent;
- The thresholds for the small business rate relief scheme will increase on 1 April 2017 from £6,000 and £12,000 to £12,000 and £15,000 respectively;
- The threshold for the standard business rates multiplier will increase from a rateable value of £18,000 to £51,000.

The Council's Discretionary Rate Relief Government Funded Scheme has been amended

SECTION 12 – PAY POLICY AND MEMBERS ALLOWANCES

110. Members will be aware that we have previously made a commitment to ensuring that our pay and rewards policies are fair and that the needs of the lowest paid staff are properly considered. From 1 April 2014 the Council amended its pay and grading structure to start at Grade C, scp 8, as part of the commitment of working towards a Living Wage. As part of this continued commitment from 1 April 2016 the pay and grading structure was further amended

to start at Grade C, scp 10. We are currently part way through a nationally negotiated two-year pay deal, and the agreed increases to be implemented in April 2017 are ‘bottom loaded’ with an increase of 2.5% on scp 10 reducing to a 1% increase on scp 18 and above. A copy of the Council’s NJC pay and grading structure with pay rates effective from 1 April 2017 is at **Appendix D(2)** for information.

111. The ‘bottom loading’ of the 2 year pay deal means that the Council’s lowest pay point of scp 10 will be £8.09 per hour from April 2017, considerably higher than the current National Living Wage hourly rate of £7.50.

112. Currently there is a national review of the NJC pay spine to consider the impact of the Government’s National Living Wage and a working party has been established. In view of this ongoing work, the impact of the national 2 year settlement on the lower spinal column points, and the differential between the Council’s lowest hourly rate (£8.09 from 1 April 2017) and the Government’s National Living Wage (£7.50) it is not proposed to make any further changes to the Council’s pay and grading structure at this stage.

113. It should also be noted that from 1 April 2016 the Council agreed to pay its apprentices the national minimum wage for age (starting at £4.00 per hour for 16-18 year olds) rather than the national apprentice rate of £3.40 per hour.

114. The Council’s pay policy statement is at **Appendix D.** The Council’s current Median Hourly rate is £10.91 (£10.81 in 2016/17) and the pay multiple is 7.93 (7.92 in 2016/17). The increase in median hourly rate reflects the Council’s move towards a living wage since April 2014 and the 2 year national pay settlement. The pay multiple, which is determined by comparing the pay of the highest paid employee (Chief Executive) against the median average pay using hourly rates as at 31 December 2015 has remained fairly static, the very slight change being as a result of national pay awards.

115. The plans in place to deliver the changes that are needed to meet the MTFP challenge have a significant impact on all our employees. There continues to be a reduction in the overall headcount and FTE of the workforce. Between 1 April 2011 and 31 December 2016, we have seen the following change:

- A reduction in headcount of 1019 (From 4,260 to 3,241)
- A reduction in FTE of 636 (From 3,142 to 2,506)

It should also be noted that there has also been a reduction in the use of agency and casual workers.

116. Since April 2016 to 31 December 2016, 35 employees have left the Council’s employment due to redundancy (20 voluntary redundancy, 15 compulsory redundancy). The Council will continue to manage service changes sensitively and proactively and has a long history of doing so. All change will continue to be managed in line with the Management of Organisational Change policy with each service review taken through its own consultation and implementation process. We will continue to minimise redundancies by requiring Director approval to any recruitment to vacant posts, seek expressions of interest in Voluntary Redundancy and reduction in hours (if appropriate) through the review process, and support employees seeking redeployment.

117. We continue to maintain close contact with the Trade Unions, regular update meetings are held with the Trade Unions and the Chief Executive, Deputy Chief Executive and Director of Human Resources, Legal & Communications. We will continue to provide regular updates for employees in KYIT on the financial situation and Big Picture Programme and provide opportunities for employees to put forward ideas and suggestions as well as discussions during the formal consultation process. The HR Service are continuing to ensure that a

package of employee support and targeted training is available to all employees at risk of redundancy.

Officer Appointments To Outside Bodies And Governing Bodies

118. All officer appointments to any Body, including a Governing Body, as a Local Authority representative need to be approved by Cabinet where that Body is concerned with functions which are a Cabinet responsibility, for example education, social care, regeneration.

119. Attached at **Appendix D(1)** is a list of appointments that have been made to external bodies where officers are acting in a Local Authority capacity. It is intended that this list is kept updated and reported to Cabinet annually as part of the MTFP reporting process.

120. It should be noted that the Council's insurance and indemnity arrangements will apply to these appointments as the officer is acting on behalf of the Local Authority. In addition the external Body may have indemnity arrangements in place for its Directors, Trustees or Governors.

121. It is recommended that:

- Council approve the pay policy statement at **Appendix D**
- Cabinet approve and note the Officer Appointments to Outside bodies and governing bodies at **Appendix D(1)**.

Members Allowances

122. Members will be aware that allowances have been frozen since 2013/14 and it is proposed that this continues for 2017/18 to support the Council's difficult financial position.

SECTION 13 – PRECEPT LEVELS

Stockton Precept

123. Stockton's current tax level for 2016/17 at Band A (the biggest percentage of its properties) is £926.51 (£17.77 per week).

	Band A £	Band D £
2016/17	926.51	1,389.77
2017/18	971.91	1,457.87

Police Precept

124. The Police & Crime Commissioner has indicated a Council Tax Increase of XX%

	Band A £	Band D £
2016/17	140.24	210.36
2017/18		

Fire Authority

125. A report to the Fire Authority on X February 2017 outlines a proposed Council Tax increase of XX%.

	Band A £	Band D £

2016/17	47.80	71.70
2017/18		

Parishes

126. Details of the Parish precepts are given below:

Parish	2016/17 Precept £	2017/18 Precept £	Precept Increase/ Decrease £	Precept Increase/ Decrease %	Band D Increase/ Decrease %	LCTS Grant Both Years £	2017/18 TOTAL £
Aislaby & Newsham	0	0	0	0.00%	0.00%	0	0
Carlton	4,498	4,498	0	0.00%	1.28%	22	4,520
Castlelevington / Kirklevington	11,652	12,500	848	7.28%	5.94%	348	12,848
Egglescliffe & Eaglescliffe	52,970	67,693	14,723	27.79%	25.88%	5,446	73,139
Elton	0	0	0	0.00%	0.00%	0	0
Grindon	13,500	22,000	8,500	62.96%	59.46%	0	22,000
Hilton	1,856	2,171	315	16.97%	15.14%	129	2,300
Ingleby Barwick	138,172	138,172	0	0.00%	-2.27%	3,445	141,617
Long Newton	11,764	11,764	0	0.00%	0.26%	236	12,000
Maltby	2,362	2,362	0	0.00%	-3.29%	138	2,500
Preston	5,029	5,029	0	0.00%	0.66%	471	5,500
Redmarshall	2,700	3,300	600	22.22%	22.28%	118	3,418
Stillington & Whitton	7,757	8,757	1,000	12.89%	8.60%	1,243	10,000
Thornaby	138,360	138,360	0	0.00%	-1.45%	36,050	174,410
Wolviston	11,206	11,445	239	2.13%	1.47%	533	11,978
Yarm	93,359						
Billingham	204,016	222,854	18,838	9.23%	7.78%	23,509	246,363
Total	**699,201**	**tba**	**tba**	**tba**	**tba**	**tba**	**tba**

Overall Tax Position

127. Stockton Borough Council is required to collect tax on behalf of 4 independent organisations:

The Council
Police
Fire
Parishes

The position assuming Stockton Borough Council sets its Council Tax requirement at £XX is given below:

Tax 2017/18			
	Current 2016/17 (Band A) £	Proposed 2017/18 (Band A) £	Increase %
Police	140.24		
Fire	47.80		
Stockton BC	926.51	971.91	4.9

Formal Tax Recommendations

128. The Council must approve precept/tax in line with statutory guidelines. These are contained at **Appendix E**.

Appendix A

Capital Programme – December 2016

CAPITAL PROGRAMME up to 2020	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure April 2012 - Dec 2016
SCHOOL CAPITAL				
School Investment Programme	16,532,904	394,500	16,927,404	6,303,355
SCHOOLS CAPITAL	**16,532,904**	**394,500**	**16,927,404**	**6,303,355**
HOUSING REGENERATION & TOWN CENTRES SCHEMES				
Housing Regeneration	6,309,922	2,000	6,311,922	3,697,153
Stockton Town Centre Schemes	8,331,213	0	8,331,213	2,956,787
Billingham Town Centre Schemes	73,460	0	73,460	5,000
Other Regeneration Schemes	1,342,881	0	1,342,881	213,391
HOUSING REGENERATION & TOWN CENTRES SCHEMES	**16,057,476**	**2,000**	**16,059,476**	**6,872,331**
TRANSPORTATION				
Local Transport Plans	7,955,585	214,359	8,169,944	1,886,256
Other Transport Schemes	6,953,480	82,385	7,035,865	6,455,895
Developer Agreements	3,998,379	0	3,998,379	2,960,205
Tees Valley Bus Network Initiative	1,056,085	0	1,056,085	1,024,092
TRANSPORTATION	**19,963,529**	**296,744**	**20,260,273**	**12,326,448**
OTHER SCHEMES				
Private Sector Housing	3,130,441	16,000	3,146,441	1,388,523
Building Management & Asset Review	2,562,379	16,000	2,578,379	1,810,869
ICT & Infrastructure	495,215	(80,000)	415,215	372,504
Parks, Museums & Cemeteries	944,051	135,080	1,079,131	561,959
Energy Efficiency Schemes	13,240,000	0	13,240,000	9,508,813
Other Schemes	13,913,974	0	13,913,974	1,369,277
OTHER SCHEMES	**34,286,060**	**87,080**	**34,373,140**	**15,011,945**
Total Approved Capital MTFP	**86,839,969**	**780,324**	**87,620,293**	**40,514,079**

Appendix B

Capital Programme – New Approvals

CAPITAL PROGRAMME	Current Approved Programme	New Approvals (Part of Report)	Total
SCHOOL CAPITAL			
School Investment Programme			
Planned Maintenance	4,239,416		4,239,416
Rosebrook School	611,467		611,467
Ash Trees School	1,200,000		1,200,000
Mandale Mill - Priority School Capital Grant	76,046		76,046
30hr Nursery Provision	394,500		394,500
Basic Need Capital Funding	10,405,973		10,405,973
	16,927,404	**0**	**16,927,404**
HOUSING REGENERATION & TOWN CENTRES SCHEMES			
Housing Regeneration			
Victoria Estate Regeneration	4,114,985		4,114,985
Parkfield Regeneration	2,196,937		2,196,937
	6,311,922	**0**	**6,311,922**
Stockton Town Centre			
Stockton Town Centre - Infrastructure Projects	1,705,724		1,705,724
Townscape Heritage Initiative	1,059,609		1,059,609
THI Match Funding	500,000		500,000
Globe Theatre Refurbishment	3,651,600		3,651,600
Courtyard Improvements	1,414,280		1,414,280
Northshore Hotel		17,000,000	17,000,000
	8,331,213	**17,000,000**	**25,331,213**
Billingham Town Centre Schemes			
Billingham Town Centre - Public Realm	73,460		73,460
	73,460	**0**	**73,460**
Other Regeneration Schemes			
Northshore Innovation Centre	392,881		392,881
Strategic Acquisitions	500,000		500,000
Estate Shops	450,000		450,000
	1,342,881	**0**	**1,342,881**
TRANSPORTATION			
LTP - Integrated Transport	2,957,434		2,957,434
LTP - Structural Maintenance	5,212,510		5,212,510
Preston Park Additional Car Parking	474,301		474,301
LGF Schemes	4,651,304		4,651,304
Developer Agreements	3,998,379		3,998,379
Tees Valley Bus Network Initiative	1,056,085		1,056,085
Londonderry Bridge	1,810,260		1,810,260
Eaglescliffe Station Western Access	100,000		100,000
	20,260,273	**0**	**20,260,273**

OTHER SCHEMES			
Private Sector Housing			
Disabled Adaptations	2,530,441		2,530,441
Regional Loan Scheme	116,000		116,000
Empty Homes - Regional Scheme	500,000		500,000
	3,146,441	**0**	**3,146,441**
Building Management & Asset Review			
Building Maintenance Programme	490,000		490,000
Libraries Improvements	344,386		344,386
Assets Review	27,560		27,560
Billingham Campus Site Improvements	345,544		345,544
Playing Pitch Strategy	1,370,889		1,370,889
	2,578,379	**0**	**2,578,379**
Resources / ICT & Infrastructure			
A2S: ICT Cost	180,215		180,215
Broadband Infrastructure	235,000		235,000
	415,215	**0**	**415,215**
Parks, Museums & Cemeteries			
Parks Improvement Programme	772,883		772,883
Cemeteries	315,536		315,536
	1,088,419	**0**	**1,088,419**
Energy Efficiency Schemes			
District Heating Schemes	340,000		340,000
Street Lighting Investment Programme	12,900,000	1,000,000	13,900,000
	13,240,000	**1,000,000**	**14,240,000**
Other Schemes			
Childrens Social Care Investment	179,879		179,879
Community Capacity Projects	885,435		885,435
ACMT ICT System	210,000		210,000
Social Care Mobile Working	60,000		60,000
Allensway Improvements	218,963		218,963
Joint Venture Investments	493,077		493,077
School Pitches	128,000		128,000
Vehicle Replacement Fund	1,551,917		1,551,917
Tees Active - High Rope Course	36,532		36,532
Leisure Facility Ingleby Barwick	10,000,000		10,000,000
Community Centre Support	50,000		50,000
Halcyon Centre	30,000		30,000
Autism Grant	9,183		9,183
Halidon Way Flood Relief Scheme	51,700		51,700
	13,904,686	**0**	**13,904,686**
Total Approved Capital MTFP	**87,620,293**	**18,000,000**	**105,620,293**

OTHER SCHEMES			
Private Sector Housing			
Disabled Adaptations	2,530,441		2,530,441
Regional Loan Scheme	116,000		116,000
Empty Homes - Regional Scheme	500,000		500,000
	3,146,441	**0**	**3,146,441**
Building Management & Asset Review			
Building Maintenance Programme	490,000		490,000
Libraries Improvements	344,386		344,386
Assets Review	27,560		27,560
Billingham Campus Site Improvements	345,544		345,544
Playing Pitch Strategy	1,370,889		1,370,889
	2,578,379	**0**	**2,578,379**
Resources / ICT & Infrastructure			
A2S: ICT Cost	180,215		180,215
Broadband Infrastructure	235,000		235,000
	415,215	**0**	**415,215**
Parks, Museums & Cemeteries			
Parks Improvement Programme	772,883		772,883
Cemeteries	315,536		315,536
	1,088,419	**0**	**1,088,419**
Energy Efficiency Schemes			
District Heating Schemes	340,000		340,000
Street Lighting Investment Programme	12,900,000	1,000,000	13,900,000
	13,240,000	**1,000,000**	**14,240,000**
Other Schemes			
Childrens Social Care Investment	179,879		179,879
Community Capacity Projects	885,435		885,435
ACMT ICT System	210,000		210,000
Social Care Mobile Working	60,000		60,000
Allensway Improvements	218,963		218,963
Joint Venture Investments	493,077		493,077
School Pitches	128,000		128,000
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Tees Active - High Rope Course	36,532		36,532
Leisure Facility Ingleby Barwick	10,000,000		10,000,000
Community Centre Support	50,000		50,000
Halcyon Centre	30,000		30,000
Autism Grant	9,183		9,183
Halidon Way Flood Relief Scheme	51,700		51,700
	13,904,686	**0**	**13,904,686**
Total Approved Capital MTFP	**87,620,293**	**18,000,000**	**105,620,293**

CAPITAL PROGRAMME Up to 2020	Current Approved Programme	New Approvals (Part of Report)	TOTAL
Government Support	31,723,030	0	31,723,030
Earmarked Resources / Receipts	11,633,050	0	11,633,050
Earmarked Housing Regeneration Receipts	2,893,466	0	2,893,466
Prudential Borrowing	769,900	17,000,000	17,769,900
Other Contributions	7,236,731	0	7,236,731
Corporate One-Off Resources	33,364,116	1,000,000	34,364,116
Total Approved Funding Capital MTFP	**87,620,293**	**18,000,000**	**105,620,293**

Appendix C

AGENDA ITEM

REPORT TO
AUDIT COMMITTEE

28 NOVEMBER 2016

REPORT OF DIRECTOR OF FINANCE AND BUSINESS SERVICES

THE FUTURE OF EXTERNAL AUDIT APPOINTMENTS

PURPOSE OF REPORT

This report presents to Members the Council's options for appointing external auditors from financial year 2018/19.

RECOMMENDATIONS

1. That members note the contents of the report;

2. That members recommend to Council that Public Sector Appointments Ltd are appointed to make the external audit appointment for the Council.

DETAIL

1. The appointment of external auditors for local government bodies was formerly a function of the Audit Commission under the Audit Commission Act 1998. The Audit Commission was abolished in 2015 and the responsibility for auditor appointments was passed to a new body, Public Sector Audit Appointments Ltd (PSAA), a company set up by the Local Government Association for the purpose. This however is a transitional arrangement and from 2018/19 local authorities will be responsible for appointing their own external auditors. Audit appointments will have to be made by 31 December 2017 to apply from April 2018. Current auditor contracts have been extended until the end of 2017/18.

2. The new requirements are set out in the Local Audit and Accountability Act 2014. This requires local authorities to either:

    - Establish a local audit panel to make their auditor appointment. The local audit panel must consist of a majority of independent members and must have an independent chair. The panel must have a minimum of three members of which at least two must be independent, or

    - Opt into any sector-led body that may be established as the appointing person under the Local Audit and Accountability Act and relevant regulations. If they decide to do so, the authority will not need an auditor panel.

LOCAL AUDIT PANELS

3. To be considered independent under the regulations, the panel members:

    - Cannot be elected members or officers of the authority
    - Cannot have been elected members or officers of the authority in the last 5 years
    - Cannot have a familial relationship or friendship with an elected member or officer of the authority, a connected authority or connected entity
    - Cannot have a contractual relationship with the authority either personally or through a corporate body
    - Cannot be an employee, partner or director of the current auditor, previous auditors within five years, or of a prospective auditor

4. The panel members are required to have the sufficient skills, knowledge and experience to carry out their roles, these are likely to include at least a general knowledge of:

    - local authority finance
    - accountancy (public sector or commercial)
    - audit processes and regulation (public or private sector, external/local audit or internal audit), including more specifically,
    - the role and responsibilities (statutory duties) of a local public auditor in local government

5. The existing Audit Committee cannot act in this role in its current format.

6. It is not recommended that the Council adopts this approach for a number of reasons:

    - The appointment of independent members would need to be subject to a recruitment process and these would be salaried appointments.

    - The appointment of the external auditor would be a full EU procurement process due to the cost of the contract over its lifetime of five years (a compulsory time period).

    - The contract price that would be negotiated by the Council is likely to be higher than that available through a larger group of authorities or a body acting on behalf of the sector.

    It should be noted that the Audit Commission and PSAA have negotiated significant reductions in external audit fees over recent years which has seen the fee paid by Stockton reduce from £311,000 in 2010/11 to £126,758 for the most recent year, 2015/16. The planned fee for 2016/17 remains at £126,758.

A SECTOR-LED AUDIT APPOINTMENT BODY

7. Under the Local Audit and Accountability Act 2014, a body can be established which would act as the appointing person. It would then make auditor appointments for the authorities that have opted in to its services. Public Sector Audit Appointments Ltd has now been established as an appointing person.

8. PSAA has written to the Council asking whether it wishes to become an opted-in authority. It is recommended the Council accept this offer and become an opted-in authority.

9. The decision to accept the offer from PSAA to become an opted-in authority must be approved by the Council meeting as a whole. It is proposed that this approval will be sought at the same time as the budget and Council Tax is approved in February 2017. The deadline to opt-in is 9th March 2017.

OTHER OPTIONS UNDER THE ACT

10. The Local Audit and Accountability Act sets out a range of other options that are allowable under the Act. These are:

    - set up a panel jointly with one or more other authorities, however there has been no interest expressed in doing so within the Tees Valley to date.

    - use an existing committee or sub-committee to act as the auditor panel (subject to compliance with the other provisions and regulations relating to auditor panels)

    - ask another authority's auditor panel to carry out the functions for the authority. Again there does not appear to be any interest in doing this locally.

    The adoption of any of these other options is not recommended.

AUDITORS

11. Appointed auditors will operate under the National Audit Office's Code of Audit Practice and must have the necessary skills, knowledge and experience to carry out the role. At present only five companies are appointed to provide external audit to local government; these are: Mazars LLP, Grant Thornton LLP, BDO LLP, Ernst & Young LLP and KPMG LLP. PWC LLP and Deloitte LLP no longer provide external audit services to local government.

FINANCIAL AND LEGAL IMPLICATIONS

12. The Local Audit and Accountability Act 2014 requires local authorities to put in place arrangements for the appointment of external auditors in time to make the appointment by December 2017.

RISK ASSESSMENT

13. None directly from this report.

COMMUNITY STRATEGY IMPLICATIONS

14. None directly from this report.

CONSULTATION

15. None directly from this report.

Garry Cummings
Director of Finance and Business Services

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Appendix D

STOCKTON ON TEES BOROUGH COUNCIL
PAY POLICY STATEMENT
(Section 38, Localism Act 2011)

This Pay Policy Statement applies to the financial year 2017/18.

1. **INTRODUCTION**

1.1. This document sets out the Council's Pay Policy in relation to the remuneration of its employees (excluding local authority school employees) in accordance with section 38 of the Localism Act 2011. The policy is subject to annual review which must be approved by Full Council before 31st March each year. Any amendments during the course of the year must also be considered and approved by Full Council. The policy will be published on the Council's website as soon as reasonably practicable after approval or amendment.

1.2. The Council is committed to ensuring fairness, transparency and equality of pay in the remuneration of its employees. The Council aims to deliver high quality services to residents of the Borough and in this regard aims to be an employer of choice recruiting and retaining high quality employees who are valued by their employer.

2. **DEFINITIONS**

2.1. The following definitions will apply throughout this policy statement.

2.2. **'Lowest-paid employees'**

As part of its commitment to move towards the Living Wage the Council's pay and grading structure starts at Grade C, spinal column point 10 (from 01/04/2017 £8.09 per hour and are our lowest paid employees (other than apprentices).

From 1st April 2016 the Council agreed to pay its apprentices the National Minimum Wage relating to age (starting at £4.00 per hour for 16 to 18 year olds, compared to the national apprentice rate of £3.40 per hour). Given the specific nature of these appointments, apprentices have not been included within the definition of lowest paid employees for the purposes of this policy statement.

2.3. **'Chief Officer'**

The Localism Act defines the following Chief Officer posts:
Head of Paid Service designated under section 4(1) of the Local Government and Housing Act 1989;
Monitoring officer designated under section 5(1) of that Act;
Any statutory chief officer mentioned in section 2(6) of that Act;
Any non-statutory chief officer mentioned in section 2(7) of that Act;
Any deputy chief officer mentioned in section 2(8) of that Act.

3. CHIEF OFFICERS AND SENIOR MANAGEMENT TEAM

3.1. Remuneration of Chief Officers

Under the definitions set out in 2.3 above the Council's Senior Management Team Consists of the following posts:

Job Title	**Grade**
Chief Executive	Chief Executive
Deputy Chief Executive	Deputy Chief Executive
Director of Children's Services	Director Level 1
Director of Adults & Health	Director Level 1
Director of Finance & Business Services	Director Level 1
Director of HR, Legal & Communications	Director Level 1
Director of Economic Growth & Development	Director Level 1
Director of Community Services	Director Level 2
Director of Culture, Leisure & Events	Director Level 3
Assistant Director (Public Health)	Assistant Director Level 1
Assistant Director (Social Care)	Assistant Director Level 1
Assistant Director (Xentrall Shared Services)	Assistant Director Level 1
Assistant Director (Safeguarding & LAC)	Assistant Director Level 2
Assistant Director (Schools and SEN)	Soulbury
Assistant Director (Business Support & Information)	Assistant Director Level 2
Assistant Director (Administration, Democratic & Electoral Services)	Assistant Director Level 2

The salaries relating to the above grades from 01/04/2017 are:

Grade	**Salary**
Chief Executive	£168,511
Deputy Chief Executive	£136,211
Director – Level 1	£114,761
Director – Level 2	£104,050
Director – Level 3	£93,849
Assistant Director – Level 1	£89,259
Assistant Director – Level 2	£84,158
Soulbury	£76,748 to £83,574

3.2. Joint National Conditions of service (JNC) are incorporated into all Chief Officers' contracts of employment, save for the Assistant Director (Schools and SEN) which are Soulbury Terms and Conditions.

3.3. The salaries for Chief Officers have been determined through independent analysis and benchmarking and reflect rates which are reasonably sufficient to recruit and retain senior officers taking into account market conditions.

The grades attributable to Senior Officer posts are subject to job evaluation and based on:

- clear salary differentials which reflect the level of responsibility attached to any particular role; and

3.4.	Chief officers do not receive bonus payments or performance related pay nor do they receive any benefits in kind paid for by the employer. Where a chief officer meets the criteria for entitlement to expenses these are paid in accordance with the Council's Single Status Agreement. Increases in pay for Chief Officers will occur only as a result of: o pay awards agreed by way of national/local collective pay bargaining arrangements; or o significant changes to a Chief Officer's role which result in a higher salary being appropriate as confirmed by the outcome of an appropriate job-evaluation process. o Recruitment and/or retention payments which, in all the given circumstances at the relevant time, are deemed necessary in the best interests of the Council and which are determined under the relevant policy relating to such payments.
3.5.	It is expected that senior officers will perform to the highest level. Performance related pay therefore does not form part of current remuneration arrangements. This position will be reviewed if legislation and/or guidance relating to senior officer posts changes.
3.6.	As service reviews are undertaken a rationalisation of the number of Chief Officers will be sought, where this is practicable to do so.
3.7.	In accordance with the requirements of the Localism Act 2011, in respect of new appointments, an offer of a salary package of £100,000 or higher will not be made in respect of any post without the prior approval of the Council.
3.8.	**Election Duties undertaken by Chief Officers** Fees for election duties undertaken by chief officers are not included in their salaries. For Parliamentary elections the Council receive a Parliamentary Election Order form central government which has already set the fee for each constituency. In respect of local elections fees are determined separately in consultation with the other Tees Valley Councils. For contested elections the fees are based on an agreed sum for the first 1000 electors and a further sum for each additional 1000 electors or fraction thereof, and a set agreed sum for uncontested elections
3.9.	**Remuneration on appointment** Chief Officers are recruited in accordance with the Council's Constitution and associated Scheme of Delegation to the appropriate salary of the grade.
3.10.	**Payments to Chief Officers upon termination of their employment** Chief Officers who cease to hold office or be employed by the Council will receive payments calculated using the same principles as any other member of staff, based on entitlement within their contract of employment, their general terms and conditions, and existing policies.
3.11.	In the case of termination of employment by way of early retirement, redundancy (voluntary or otherwise) or on the grounds of efficiency of the service, the Council's Pensions and Retirement Policy sets out provisions which apply to all staff regardless of their level of seniority.
3.12.	The Council's Pensions and Retirement Policy also sets out the applicable provisions in respect of awarding additional pension entitlement by way of augmentation or otherwise.

3.13.	Where a severance package is to be paid, where taken as a whole, has a cost to the authority of £100,000 or more (subject to section 3.14 below), the Council will be given an opportunity to vote before the package is approved.
3.14.	Employees who would be contractually entitled to payments in excess of £100,000 where there is no discretion and a failure to comply would place the Council in breach of contract and leave it exposed to litigation would be exempt from the requirement of such a vote.
3.15.	The Government is proposing to introduce a cap on Public Sector Exit Payments. The Council will amend its policy and payments made on termination to reflect any changes in legislation.
4.	**EMPLOYMENT OF INDIVIDUALS ALREADY IN RECEIPT OF A LOCAL GOVERNMENT PENSION**
4.1.	The approach to the employment of individuals already in receipt of a local government pension is set by the Teesside Pension Fund. The Fund has resolved not to abate pensions on re-employment, having regard to the enactment of regulations introducing flexible retirement, unless an enhanced ill-health retirement has been awarded.
5.	**EMPLOYMENT OR ENGAGEMENT OF EX EMPLOYEES UNDER A CONTRACT FOR SERVICES**
5.1.	The Council does not generally support the engagement of ex- under a contract for services. However there may be circumstances where the employment of an ex-employee under these terms is the most effective and efficient way of meeting the Council's needs. If this situation applies formal approval will be sought from the Chief Executive in his role as head of the paid service. In addition the Government is has introduced legislation to enable the recovery of exit payments for higher paid employees returning to the public sector. The Council will therefore seek to recover the required proportion of any exit payment made to any former public sector employee in accordance with the proposed legislation.
6.	**REMUNERATION OF LOWEST PAID EMPLOYEES**
6.1.	The Council introduced its Single Status Agreement on 1st April 2008. The lowest paid employees within the Council are appointed to jobs which have been evaluated using the NJC Job Evaluation Scheme and are remunerated accordingly. The Council is committed to ensuring that pay and rewards policies are fair and that the needs of the lowest paid staff and continues to work towards paying the living wage.
7.	**RELATIONSHIP BETWEEN CHIEF OFFICER AND NON-CHIEF OFFICER REMUNERATION**
7.1.	The 'pay multiple' for the Council is determined by comparing the pay of the highest paid employee (Chief Executive) against the median average pay, using hourly rates as at 31st December, for employees within the scope of this statement.
7.2.	The Council will aim to maintain a pay multiple of less than 10.
7.3.	The Council's current Median Hourly Rate is £10.91 (£10.81 in 2016/17) and the Pay Multiple is 7.93 (7.92 in 2016/170). The increase in the Median hourly rate reflects the Council's move towards a living wage since April 2014 and the 2 year annual pay award covering 2015/16 and 2016/17. The pay multiple is relatively static, the very small change being as a result of national pay awards.

8.	**GENERAL PRINCIPLES REGARDING THE REMUNERATION OF STAFF**

8.1.	The Council have established pay and grading structures, founded on evaluation of job roles using job evaluation, which ensures a fair and transparent approach to pay and the same grading of jobs which are rated as equivalent. The Single Status Agreement was subject to an equality impact assessment by the Council as well as being approved by the respective trade unions equal pay units. All employees are recruited in accordance with the Council's Recruitment Policy and are appointed on the minimum of the grade unless there are exceptional circumstances which would warrant appointment above the minimum of the grade. However, where an employee is redeployed because of redundancy or ill health into a lower graded job they will generally be appointed to the highest spinal column point of the lower grade, where appropriate, with salary protection to minimise the financial loss. Where an employee has secured promotion into a higher-graded job and there is an overlap of spinal column points between their current and new job, and the employee is already on the maximum of their current grade they will generally commence on the second spinal column point of the new grade.
9.	**PUBLICATION OF AND ACCESS TO INFORMATION RELATING TO REMUNERATION OF CHIEF OFFICERS**
9.1.	The Council will publish their Pay Policy Statement, following approval of Full Council, on the Council's website. In addition remuneration related data associated with the Pay Policy Statement and Code of Recommended Practice for Local Authorities on Data Transparency will be published on the Council's website no later than 31^{st} March and information related to the public sector equality duty no later than 30^{th} June.

Appendix D(1)

Body	Role	Officer
Spark of Genius NE LLP	Board Member	Garry Cummings, Shaun McLurg/Rhona Bollands (from February 2017),– Assistant Director (Safeguarding and LAC); Diane McConnell, Assistant Director (Schools and SEN)
North East Culture Partnership	Board Member	Reuben Kench, Director of Culture, Leisure and Events
Tees River Trust	Board Member	Reuben Kench, Director of Culture, Leisure and Events
Stockton Riverside College	Governor	Deborah Merrett, Chief Advisor
Bishopton Management Board	Governor	Deborah Merrett, Chief Advisor
Northern Education Trust	Governor	Keith Morrison, General Advisor (0-11); Angela White, Senior Advisor (11-19)
Grangefield Academy	Governor	Angela White, Senior Advisor (11-19)
North Shore Academy	Governor	Angela White, Senior Advisor (11-19)
Prior Pursglove and Stockton Sixth Form College	Governor	Sue Reay, Transformation Team
Share the Vision	Trustee	Mark Freeman, Libraries and Heritage Manager
Culture Bridge NE	Board Member	Mark Freeman, Libraries and Heritage Manager
Oliver and Norman Field Charity	Trustee	Sarah Runnacles, Senior Occupational Therapist
Achieving Real Change In Communities CIC (ARCC)	Board Member	Paul Dobson, Transformation Team
Tees Valley LEP Area ESI Funds Local Sub-Committee	Board Member	Neil Schneider, Chief Executive
Stockton BID Company limited	Board Member	Neil Schneider, Chief Executive
Stockton Hotels Company Ltd	Board Member	Neil Schneider, Chief Executive; Beccy Brown, Director of HR, Legal and Communications; Garry Cummings, Director of Finance and Business Services; Richard McGuckin, Director of Economic Growth and Development Services
The Globe Stockton Foundation	Board Member	Neil Schneider, Chief Executive
Stockton Borough Holding Company Limited	Board Member	Neil Schneider, Chief Executive; Beccy Brown, Director of HR, Legal and Communications; Garry Cummings, Director of Finance and Business Services; Richard McGuckin, Director of Economic Growth and Development Services
Northern Grid For Learning	Board Member	Jane Wright, Planning & Partnership Manager

Appendix D(2)

Stockton-on-Tees Borough Council

Salary Scales from 1st April 2017

Grade	SCP	Annual	Hourly	Grade	SCP	Annual	Hourly
C	10	£15,613.00	£8.09	L	36	£31,601.00	£16.38
D	11	£15,807.00	£8.19	L	37	£32,486.00	£16.84
D	12	£16,123.00	£8.36	L	38	£33,437.00	£17.33
D	13	£16,491.00	£8.55	L / M	39	£34,538.00	£17.90
E	14	£16,781.00	£8.70	M	40	£35,444.00	£18.37
E	15	£17,072.00	£8.85	M	41	£36,379.00	£18.86
E	16	£17,419.00	£9.03	M / N	42	£37,306.00	£19.34
F	17	£17,772.00	£9.21	N	43	£38,237.00	£19.82
F	18	£18,070.00	£9.37	N	44	£39,177.00	£20.31
F	19	£18,746.00	£9.72	N / O	45	£40,057.00	£20.76
G	20	£19,430.00	£10.07	O	46	£41,025.00	£21.26
G	21	£20,138.00	£10.44	O	47	£41,967.00	£21.75
G	22	£20,661.00	£10.71	O / P	48	£42,899.00	£22.24
H	23	£21,268.00	£11.02	P	49	£43,821.00	£22.71
H	24	£21,962.00	£11.38	P	50	£44,866.00	£23.26
H	25	£22,658.00	£11.74	P / Q	51	£45,994.00	£23.84
I	26	£23,398.00	£12.13	Q	52	£46,998.00	£24.36
I	27	£24,174.00	£12.53	Q	53	£47,813.00	£24.78
I	28	£24,964.00	£12.94	Q	54	£48,645.00	£25.21
J	29	£25,951.00	£13.45	SM4	55	£51,361.00	£26.62
J	30	£26,822.00	£13.90	SM4	56	£52,453.00	£27.19
J	31	£27,668.00	£14.34	SM4	57	£53,547.00	£27.75
J	32	£28,485.00	£14.76	SM4	58	£54,641.00	£28.32
K	33	£29,323.00	£15.20	SM3	59	£55,733.00	£28.89
K	34	£30,153.00	£15.63	SM3	60	£56,827.00	£29.45
K	35	£30,785.00	£15.96	SM3	61	£57,919.00	£30.02
K	36	£31,601.00	£16.38	SM3	62	£59,008.00	£30.59
				SM2	63	£67,327.00	£34.90
				SM1	64	£75,487.00	£39.13

Appendix E

Council Tax Statutory Requirements

(to follow)

Appendix E(1)
(to follow)

Appendix E(2)
(to follow)

Appendix E(3)
(fo follow)

Appendix F

TREASURY MANAGEMENT STRATEGY STATEMENT 2017/18

Introduction

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have adopted both the CIPFA Code and the CLG Guidance and to use these in preparing a Treasury Management Strategy..

The Council has both borrowing and investments and therefore has an exposure to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Treasury Management Advisors

The Council has recently appointed Arlingclose as its external treasury management advisors. The contract runs for a period of three years commencing on the 1st January 2017.

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.

External Context

The Council's treasury adviser Arlingclose's view is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely.

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

Local Context

On 31st December 2016, the Council held £54.8m of borrowing and £75.8m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Forecast £m	31.3.19 Forecast £m	31.3.20 Forecast £m
General Fund CFR	112.7	108.3	115.8	136.4	140.4
Less: Other debt liabilities *	-7.9	-7.1	-6.5	-6.0	-5.2
Less: External borrowing **	-47.9	-47.7	-56.3	-74.6	-80.6
Internal borrowing	**56.9**	**53.5**	**53.0**	**55.8**	**54.6**
Less: Usable reserves	-153.6	-121.4	-111.4	-131.0	-116.0
Less: Working capital	-6.1	-6.1	-6.1	-6.1	-6.1
Investments	**-102.8**	**-74.0**	**-64.5**	**-81.3**	**-67.5**

** finance leases, PFI liabilities and transferred debt that form part of the Council's total debt*
*** shows only loans to which the Council is committed and excludes optional refinancing*

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing

The Council has a CFR which will increase over the forecast period due to the capital programme, the level of investments means the Council therefore be required to borrow over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2017/18.

Borrowing Strategy

The Council will hold £47.68 million of loans at the end of 2016/17, a decrease of £0.17 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow in 2017/18. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £133.6 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, where possible, or to borrow short-term loans instead.
By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
Alternatively, the Council may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Teesside Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised some of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local Council loans and bank loans, that may be available at more favourable rates.

LOBOs: The Council holds £37m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2017/18, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £37m.

Short-term and Variable Rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators overleaf.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

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

Strategy: Given the increasing risk and falling returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the funds that are available for longer-term investment. The majority of the Council's surplus cash remains invested in short-term unsecured bank deposits, and money market funds. This diversification will represent a substantial change in strategy over the coming year.

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

Table 2: Approved Investment Counterparties and Limits

Counterparty	Rating	Individual Cash Limit		Total Limit	Maximum Period
		Unsecured	Secured		
UK Banks, Foreign Banks and other organisations whose lowest published long-term credit rating or specific investment rating from Fitch, Moody and Standard & Poor is:	AAA	£15m	£15m	£50m	2 years
	AA+	£10m	£15m	£50m	2 years
	AA	£10m	£15m	£25m	2 years
	AA-	£10m	£15m	£25m	2 years
	A+	£10m	£15m	£15m	2 years
	A	£5m	£10m	£15m	1 year
	A-	£3m	£5m	£10m	1 year
Council's Own Clearing bank		£15m	n/a	£15m	n/a*
UK Building Societies without credit ratings		£3m	£5m	£5m	6 months
UK Local Authorities		£10m	£10m	£50m	3 years
UK Government DMO, Treasury Bills, Treasury Gilts & Instruments		Unlimited	Unlimited	Unlimited	Unlimited
Money Market Funds and Other Pooled Funds		£10m	£10m	£50m	Unlimited
Any other organisation (subject to external credit assessment and specific advice from the Council's treasury management advisor)		£5m	£5m	£10m	5 years

**If the Council's current clearing bank fails to meet the minimal credit criteria, the time limit on investments will be restricted to overnight.*

This table must be read in conjunction with the notes below:

Current Bank Account: The Council's current account is held with NatWest Bank which is currently rated below the minimum A- by the ratings agencies. The Council may continue to deposit surplus cash with NatWest providing that the investments can be withdrawn on the next working day and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

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

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

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

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

Other Organisations:

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

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

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

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

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

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

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

Other Information on the Security of Investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing

financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

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

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local Council, parish council or community council, or
    - a body or investment scheme of "high credit quality".

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

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below [A-]	£10m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£10m
Total non-specified investments	£60m

Investment Limits: The Council's revenue reserves available to cover investment risk are forecast to be £121.4 million on 31st March 2017. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited

Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£30m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£10m per country
Registered Providers	£10m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£10m in total
Money Market Funds	£50m in total

Liquidity Management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

TREASURY MANAGEMENT INDICATORS

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net interest payable will be:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	40%	40%	40%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	25%
12 months to 2 years	0%	40%
2 years to 5 years	0%	60%
5 years to 10 years	0%	80%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£60m	£60m	£60m

PRUDENTIAL INDICATORS

The Capital Prudential Indicators 2016/17 – 2018/19

The Council's capital expenditure plans are a 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.
The Council is recommended to approve the summary capital expenditure and financing projections below; service details are shown in the main budget report. This forms the first prudential indicator:

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Expenditure					
General Fund	44,857	38,947	28,525	29,636	6,000
Total Financing					
Capital receipts	2,573	6,591	3,504	3,156	-
Capital grants	29,007	20,347	7,702	-	-
Capital contributions	3,550	3,424	16	-	-
Revenue	9,727	7,815	8,303	4,580	-
Net financing need (borrowing) for the year	**-**	**770**	**9,000**	**21,900**	**6,000**
(of which Prudential Borrowing)	**-**	**-**	**9,000**	**21,900**	**6,000**

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

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 outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. 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 assets life.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes and finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently had £7.9million of such schemes within the CFR at the start of the financial year.

The Council is recommended to approve the CFR projections below:

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Financing Requirement					
General Fund	104,810	101,192	109,312	130,331	135,157
PFI & Finance Leases	7,918	7,130	6,489	6,026	5,219
Total	**112,728**	**108,322**	**115,801**	**136,357**	**140,376**
Movement in CFR	(3,973)	(4,406)	7,479	5,656	(981)

Movement in CFR represented by:					
Net financing need for the year	1,437	770	9,000	21,900	6,000
MRP/VRP and other financing movements	(5,410)	(5,176)	(1,521)	(1,344)	(1,981)
Movement in CFR	(3,973)	(4,406)	7,479	20,556	4,019

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 recommended to approve the following indicators:

Actual and Estimates of the 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.

	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	2.6	2.7	1.4	1.4	1.5

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

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. Incremental impact of capital investment decisions on the band D council tax:

	2017/18 Forward Projection £	2018/19 Forward Projection £	2019/20 Forward Projection £
Council Tax - Band D	-	-	-

Limits to borrowing activity

A further two prudential indicators control or anticipate the overall level of borrowing. These are:

The Authorised Limit for External Debt

This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

The Operational Boundary for External Debt

This indicator is based on the expected maximum external debt during the course of the year; it is not a limit. Actual borrowing could vary around this boundary for short periods during the year. It acts as a monitoring indicator to ensure the Authorised Limit is not breached.

The Council is recommended to approve the following Authorised Limit and Operational Boundary:

Authorised Limit	**2016/17 Estimate £'000**	**2017/18 Estimated £'000**	**2018/19 Estimated £'000**	**2019/20 Estimated £'000**
Borrowing	116,992	125,112	131,231	131,057
Other long term liabilities	9,130	8,489	8,026	7,219
Total	**126,122**	**133,601**	**139,257**	**138,276**
Operational Boundary				
Borrowing	101,192	109,312	115,431	115,257
Other long term liabilities	9,130	8,489	8,026	7,219
Total	**113,342**	**118,504**	**123,819**	**122,476**

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

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

The Department of Communities & Local Government regulations require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement:

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

MRP will based upon an annuity method. This option provides for repayment of the CFR arising before 1 April 2008 by the end of 2057/58.

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

- Repayments included in annual PFI or finance leases are applied as MRP.

OTHER TREASURY MANAGEMENT ISSUES

Policy on Use of Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Investment Training: The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment of Money Borrowed in Advance of Need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £133.6 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2016
Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also highly uncertain, with repercussions for financial market volatility and long-term interest rates. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

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

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-	Mar-	Jun-	Sep-	Dec-	Mar-	Jun-	Sep-	Dec-	Mar-	Jun-	Sep-	Dec-	Aver

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

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/2016 Actual Portfolio £m	31/12/2016 Average Rate %
External Borrowing:		
Public Works Loan Board	4.7	5.20%
LOBO loans from banks	37.0	4.80%
Other loans from banks	6.0	9.80%
Total External Borrowing	**47.7**	**5.50%**
Other Long Term Liabilities:		
PFI	6.1	8.40%
Finance Leases	1.0	13.40%
Total Gross External Debt	**54.8**	**5.10%**
Investments:		
Banks & building societies (unsecured)	45.8	0.39%
Government (incl. local authorities)	5.0	0.40%
Money Market Funds	25.0	0.27%
Total Investments	**75.8**	**0.36%**
Net Investments	**21.0**	

Appendix G

MRP PAYMENT PROFILE

Year	Pre 2008 Debt Annuity Method £	Pre 2008 Debt Current Method £	Post 2008 Debt Annuity Method £	Post 2008 Debt Current Method £	Change £	NPV of Change £
2017 - 2018	0	3,259,399	652,893	880,550	-3,487,057	-3,487,057
2018 - 2019	0	3,129,022	670,978	880,550	-3,338,595	-3,273,132
2019 - 2020	0	3,003,862	689,564	880,550	-3,194,848	-3,070,788
2020 - 2021	0	2,883,707	708,665	880,550	-3,055,593	-2,879,353
2021 - 2022	0	2,759,609	712,654	867,050	-2,914,005	-2,692,090
2022 - 2023	0	2,649,224	732,395	867,050	-2,783,880	-2,521,446
2023 - 2024	0	2,543,255	752,682	867,050	-2,657,624	-2,359,894
2024 - 2025	0	2,441,525	773,531	867,050	-2,535,044	-2,206,908
2025 - 2026	0	2,343,864	794,958	867,050	-2,415,956	-2,061,995
2026 - 2027	0	2,250,110	781,000	837,934	-2,307,044	-1,930,431
2027 - 2028	0	2,160,105	802,634	837,934	-2,195,406	-1,800,997
2028 - 2029	0	2,073,701	824,867	837,934	-2,086,768	-1,678,311
2029 - 2030	561,174	1,990,753	847,716	837,934	-1,419,797	-1,119,501
2030 - 2031	2,198,720	1,911,123	871,198	837,934	320,861	248,036
2031 - 2032	2,242,695	1,834,678	877,565	824,434	461,147	349,492
2032 - 2033	2,287,548	1,761,291	901,874	824,434	603,697	448,556
2033 - 2034	2,333,299	1,690,839	926,856	824,434	744,882	542,606
2034 - 2035	2,379,965	1,623,206	941,353	816,446	881,667	629,653
2035 - 2036	2,427,565	1,558,277	866,113	744,035	991,366	694,114
2036 - 2037	2,476,116	1,495,946	668,451	585,615	1,063,006	729,680
2037 - 2038	2,525,638	1,436,108	675,222	577,220	1,187,532	799,175
2038 - 2039	2,576,151	1,378,664	693,926	577,220	1,314,192	867,072
2039 - 2040	2,627,674	1,323,518	713,148	577,220	1,440,084	931,502
2040 - 2041	2,680,228	1,270,577	492,721	415,528	1,486,843	942,890
2041 - 2042	2,733,832	1,219,754	0	0	1,514,078	941,335
2042 - 2043	2,788,509	1,170,964	0	0	1,617,545	985,944
2043 - 2044	2,844,279	1,124,125	0	0	1,720,154	1,027,928
2044 - 2045	2,901,165	1,079,160	0	0	1,822,004	1,067,443
2045 - 2046	2,959,188	1,035,994	0	0	1,923,194	1,104,634
2046 - 2047	3,018,372	994,554	0	0	2,023,818	1,139,637
2047 - 2048	3,078,739	954,772	0	0	2,123,967	1,172,580
2048 - 2049	3,140,314	916,581	0	0	2,223,733	1,203,586
2049 - 2050	3,203,120	879,918	0	0	2,323,202	1,232,769
2050 - 2051	3,267,182	844,721	0	0	2,422,461	1,260,234
2051 - 2052	3,332,526	810,932	0	0	2,521,594	1,286,084
2052 - 2053	3,399,177	778,495	0	0	2,620,682	1,310,413
2053 - 2054	3,467,160	747,355	0	0	2,719,805	1,333,311
2054 - 2055	3,536,503	717,461	0	0	2,819,043	1,354,863
2055 - 2056	3,607,233	688,762	0	0	2,918,471	1,375,146
2056 - 2057	3,679,378	661,212	0	0	3,018,166	1,394,236
2057 - 2058	2,941,421	634,763	0	0	2,306,657	1,044,663