CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

18 FEBRUARY 2016

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 2016/17 budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2020.

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 at 3% of general fund, and
   c) that the controlled reserves and provisions are adequate for their purpose.

General Fund Budget

2. Members note the reduction in Government funding between 2010/11 and 2015/16 of £52m (approximately 43% in cash terms, 59% in real terms) and the projection that this will increase by a further £21m to £73m by 2019/20.

3. Approve a 2016/17 Council Tax requirement for Stockton-on-Tees Borough Council of £74,221,362.

4. Approve a 2016/17 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£699,201) of £74,920,563.

5. Approve the 2016/17 budget and indicative 2016/20 MTFP as outlined in paragraphs 55 - 58 and the use of balances and reserves as outlined in paragraph 83.

Business Rate Relief System

6. Note the changes introduced in the 2015 Autumn Statement.

Taxation

SBC

7. Approve the Council Tax for Stockton-on-Tees Borough Council prior to Parish, Fire and Police Precepts be increased by 3.9%, which includes the Government Levy of 2% in respect of Social Care, i.e. to £1,389.77 at Band D (£926.51 at Band A).

Fire, Police & Parish

8. The Council note the Police precept of £11,234,381 which equates to a Council Tax of £210.36 at Band D (£140.24 at Band A).

9. The Council note the Fire precept of £3,829,173 which equates to a Council Tax of £71.70 at Band D (£47.80 at Band A).

10. The Council note the Parish precepts as set out in paragraph 101 of the budget report.

Capital

11. Approve the Capital Programme attached at **Appendix B & C.**

Organisational and HR

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

Council Tax - Statutory Requirements

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

Treasury Management/Prudential Code

14. Approve the Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators for 2016/17 – 2018/19 as set out in **Appendix F** to the report.

Reserves Policy

15. Approve the Reserves Policy as set out in **Appendix G**

CABINET DECISIONS

16. Approve the changes in respect of Care for Your Area, Environmental Health and Trading Standards and Housing outlined in Section 7 of the report.

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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DETAIL

1. The MTFP report for 2016/17 to 2019/20 is attached. The report outlines the Council Tax proposals and budget for 2016/17 and the indicative MTFP for the next three years.

2. The report updates the position from that reported to Cabinet and Council in September 2015 and in particular reflects implications arising from the Spending Review/Autumn Statement and the Local Government Finance Settlement for 2016/17.

3. The Provisional and Final Financial Settlements have provided indicative funding allocations for the next four 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, and changes to

the New Homes Bonus. These are potentially major changes which are likely to have an impact on council funding. This means that the position for 2017/18 onwards outlined in the report needs to be treat with some caution.

6. The report contains sections on:

- Background & context
- National Funding Changes
- Financial position at 31 December 2015
- Big Ticket Update
- 2016/17 Council Tax Levels including Adult Social Care Levy
- Updated Medium Term Financial Plan
- Big Picture Programme – Service Reviews
- Future Changes and Roles
- One-off Resources
- Capital Programme
- Business Rate Relief Scheme
- Pay Policy
- Precept Levels
- Treasury Management Strategy
- Reserves Policy

FINANCIAL AND LEGAL IMPLICATIONS

7. To update the MTFP position for 2016/17 – 2019/20 and recommend the budget for 2016/17.

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.

SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS

9. The report supports the Sustainable Community Strategy.

EQUALITY IMPACT ASSESSMENT

10. The report was not subject to an Equality 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.

CONSULTATION, INCLUDING WARD COUNCILLORS

11. Consultation will be undertaken as part of the lead in to setting the 2016/17 budget.

Contact Officer: Garry Cummings, Director of Finance and Business Services
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MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2016/17

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Appendices

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Appendix C	Capital Programme
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Appendix E	Council Tax Statutory Requirements
Appendix F	Treasury Management Strategy
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SECTION 1 - BACKGROUND AND CONTEXT

Approach to Financial Management

1. The Council has seen a significant reduction in Level of Government funding in recent years. Between 2010/11 and 2015/16, there has been a reduction of £52m which is a 42% cash reduction or 59% when inflation is taken into account. This means that the Council's budget overall has reduced by over 30% in real terms and as a consequence staffing numbers have reduced by approximately 800.

2. The Medium Term Financial Plan (MTFP) report to Council in September 2015 outlined the updated financial position reflecting changing circumstances following the general election in May 2015 and the position surrounding Business Rates. At that time, we were anticipating a further £15m reduction in Government Funding by 2018/19, however the information we have received as part of the Financial Settlement (discussed in Section 2) indicates a further £21m. This will mean a total reduction by 2019/20 which would equate to a total of £73m, (61% in cash terms) or 81% in real terms.

3. 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.

4. 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 2016 who stated:

   "Each year undoubtedly becomes harder and the scope for reducing expenditure without affecting service standards becomes more and more difficult. The Council continues to have a strong approach in considering a range of options, regularly updating and agreeing its plans well ahead of the relevant financial year. As we have seen in recent years, the Council is exploring innovative service redesign solutions to preserve service delivery and financial stability, such as new partnerships, joint ventures and 'invest to save' initiatives. When doing so, we have noted that the Council adopts controlled processes to mitigate risks."

   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.

5. This approach has enabled a managed and planned approach to delivering savings. The Council has already delivered savings of over £34m. This has been achieved 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 (e.g. Xentrall)
   - 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.

Current Medium Term Financial Plan and the Big Picture Programme

6. The planned and managed approach to addressing the financial challenges continues with the Big Picture Review Programme which was approved by Council in September 2015. The approach is two-fold. Firstly, there are a series of specific proposals which Council have agreed will be implemented. These will deliver £3.5m by 2018/19 and include:

- A review of senior management to reflect different ways of working across the organisation and its inevitable ‘shrinkage’. This has now been completed and will save £800k per annum.
- Proposes further reduction in processing, organisational support and administration.
- Proposes reviews in a number of areas further utilising technology to improve service efficiency
- Budget savings and income generated which will have minimal impact on front line services

7. Further reviews will explore opportunities for using technology and process review methodologies to deliver service transformation and further efficiencies. Details of actual savings will be reported back to Cabinet at a future date. These reviews are expected to deliver £2m by 2018/19.

8. Given the level of savings required, the report recognised that the Council cannot continue to provide all of the services we do at the same level, in the same way and to the same standards. Even with the savings and efficiencies outlined there was an estimated gap of approximately £6.9m and it was recognised that we will need to provide a differential level of service with fewer universal services and more services targeted to areas of most need. The Report identified the reviews they would need to consider:

- Statutory responsibilities
- The service specifications, levels and standards
- Targeting the services to the areas or people in most need
- The requirement for differential service levels (e.g. this principle has already been agreed by Cabinet for the library service)

Increasingly, as more savings are required there will be a need to target services to areas of most need and in particular to protect the most vulnerable.

9. Work on delivering the agreed savings proposals will be supported by a communications campaign called “The Big Picture” through which we will provide information about how the Council spends money in the borough as well as updates about the financial position and how we are responding to the huge financial challenge.

10. Given the worsening financial position, it is vitally important that we progress quickly and deliver the savings outlined in the programme. An update on certain reviews is provided in Section 7.

11. The updated Medium Term Financial Plan included in the September Cabinet Report including the approved savings is shown below with the plan rolled forward to include 2019/20. This includes the proposed use of £6.1m reserves to balance the budget in 2016/17.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Income				
RSG (inc LCTS)	23,135	16,674	10,479	9,148
NNDR	40,467	41,619	43,021	44,504
NNDR Appeals	-4,770	-770	-770	-770
Council Tax	72,077	74,227	76,295	78,275
New Homes Bonus	4,662	4,682	4,923	4,781
Social Care Reform	1,051	1,051	1,051	1,051
BCF (excl Pooled Budget share)	4,615	4,615	4,615	4,615
Public Health	14,933	14,933	14,933	14,933
Total Income	**156,170**	**157,031**	**154,547**	**156,537**
Expenditure				
Service Spend	163,744	164,036	165,436	167,209
Big Ticket Growth Pressure	3,748	4,632	6,210	6,210
Total Expenditure	**167,492**	**168,668**	**171,646**	**173,419**
Budget Gap	**11,322**	**11,637**	**17,099**	**16,882**

Funded By :				
Use of Reserves	-6,100			
Savings Programme				
Approved	-2,640	-3,145	-5,545	-6,135
Target Saving	-1,600	-3,400	-4,700	-4,700
Report back to Cabinet	-900	-5,000	-6,900	-6,900
GAP	**82**	**92**	**-46**	**-853**

SECTION 2 – NATIONAL FUNDING CHANGES

National Funding Position

12. The Chancellor announced his Autumn Statement/Spending Review on 25 November 2015. That document set out the governments' public expenditure plans for 2016/17 to 2019/20. The Local Government Finance Settlement confirmed on 8 February 2016. These figures need to be treated with some caution and are purely indicative. The headlines and the impact for Stockton are set out below.

Social Care

13. There has been significant lobbying from within the Local Government Sector around pressures relating to Adult Social Care due to increasing costs relating to an ageing population. No funding has been allocated by the Government however they have indicated that the mechanism to support some of these pressures is the flexibility to raise a social care levy, through Council Tax and they have assumed in the Finance Settlement that Authorities will adopt this levy at 2%. There is a clear requirement that this needs to be set against the context of the increasing cost and demand pressures in Adult Social Care, which will be exacerbated by the impact of the Government's proposals around Living Wage, to which no reference has been made in the Finance Settlement.

14. The government have also announced a new Better Care Fund, which they state will amount to £1.5bn nationally by 2019/20, the indications are that this is funded through reductions in New Homes Bonus and Revenue Support Grant. Although indicative allocations have been issued, more detail is awaited.

Core Government Funding – Settlement Funding Assessment (SFA) and Revenue Support Grant (RSG)

15. The Settlement Funding Assessment (SFA) for each local authority is defined as the amount of Revenue Support Grant received plus the Business Rates Baseline. The effect of any reduction to an authority's SFA is to reduce the amount of Revenue Support Grant received.

16. The Government announced a reduction in the Settlement Funding Assessment (SFA) of 31.8% for England between 2015/16 and 2019/20. The figure for Stockton over the same period is a reduction of 34.1% and this is higher than the 27% included in the MTFP.

17. Members will be aware of the significant reductions in Government Funding in recent years. Between 2010/11 and 2015/16 we have seen a reduction of £52m which represents a 43% cash reduction. Based on the assumptions above, overall Government Funding would reduce by a further £21m by 2019/20 which would equate to a total of £73m, (61% cash terms).

National Measure - Core Spending Power

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

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

Core Spending Power of Local Government;

	2015-16 (adjusted) £ millions	2016-17 £ millions	2017-18 £ millions	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment	67.2	58.3	51.7	48.0	44.3
Council Tax;	69.9	74.0	78.7	83.9	89.5
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*69.9*	*72.6*	*75.7*	*79.1*	*82.8*
additional revenue from 2% referendum principle for social care	-	*1.4*	*3.0*	*4.8*	*6.7*
additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level	-	-	-	-	-
Improved Better Care Fund	-	-	*0.2*	*2.7*	*4.9*
New Homes Bonus and returned funding	4.0	*4.7*	*4.8*	*3.0*	*2.9*
Rural Services Delivery Grant	-	-	-	-	-
Core Spending Power	**141.0**	**137.0**	**135.4**	**137.5**	**141.6**
Change over the Spending Review period (£ millions)					0.5
Change over the Spending Review period (% change)					0.4%

Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Funding

20. It should be noted that the position for 2017/18 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 as compared to £17m previously estimated. The figure from 2016/17 is a £9m reduction compared to the £7.4m included in the current MTFP.

- 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 (Subject to

Consultation – see paragraph 68)

- Assumed Council Tax increase of £13m which is based on a 1.75% increase plus growth. The Government have assumed a notional level of taxbase growth of 2% per year, approximately 1,600 properties, which is significantly above the level of growth included in our projections (0.5% per year, 450 properties).

- An assumption that the Council will implement a 2% 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.

Grants

21. The Education Support Grant (ESG) has been reduced at a national level by around 10%. This means a reduction in grant for Stockton of £200,000 in 2016/17. It is expected that this will further reduce in subsequent years, leaving only a very small income from this source on an ongoing basis. Expenditure on services funded from the Grant will continue to be reviewed.

Public Health

22. The Spending Review highlighted that Public Health would face funding reductions of around 3.9% per annum in real terms in this Parliament. This comes on top of the reductions in funding previously announced for 2015/16 of approximately £1m. No further detail was forthcoming in the Provisional Finance Settlement. It should be noted however that the Government is considering changing the formula which calculates the grant distribution and this could have a significant impact on the Council's allocation.

SECTION 3 - FINANCIAL POSITION AS AT 31 DECEMBER 2015

23. The table below outlines the managed surplus position of each service. Given the agreed approach for Big Ticket areas, they are not included in these figures and are covered separately in Section 4 of the report. It should also be noted that future reports will present this information in a new format reflecting the recent changes to the senior management structure.

Service Reserves (MS)/MC	**Previously reported position at 31/3/16 (MS) / MC's £'000's**	**Projected Outturn position at 31/3/16 (MS) / MC's £'000's**	**Projected Outturn position at 31/3/17 (MS) / MC's £'000's**	**Projected Outturn position at 31/3/18 (MS) / MC's £'000's**
CESC	(1,602)	(2,146)	(697)	0
D & NS	0	(572)	(83)	0
RESOURCES	(549)	(645)	(355)	(214)
LAW & DEMOCRACY	(198)	(208)	(208)	(208)
PUBLIC HEALTH	(220)	(213)	0	0
TOTAL	**(2,569)**	**(3,784)**	**(1,343)**	**(422)**

Children, Education and Social Care

24. Members will note that the projected managed surplus has increased by £544,000. The main reasons are outlined below:

- Vacancies across Children's Services have resulted in an increase in the managed surplus of £420,000 largely due to vacant posts. The vacancies are in relation to reviews and the time taken to recruit to specialist posts.

- In Adults Services, funding of £117,000 has been earmarked to fund the development of a Carers Strategy Action Plan. This funding will be carried forward for use in 2016/17.

- A report to Cabinet in January outlined the requirement to undertake further work in 2016/17 to understand the full implications of the Deprivation of Liberty Safeguards regulations and requirements and the need for funding of £525,000. This can now be funded from managed surplus.

<u>Development & Neighbourhood Services</u>

25. The position has improved due to managed surplus where spend was anticipated in the current financial year which will be deferred until next year. The main reasons are:

    - Funding committed previously relating to the development of the Local Development Framework (LDF) will now be carried forward to 2016/17 for use for this purpose.

    - Further managed surplus of £250,000, previously earmarked for developments in Direct Services will be carried forward for use in 2016/17

    There are some in-year savings which also improve the position;

    - Additional income has been generated by Direct Services from works to external organisations
    - The inflationary increase negotiated with the bus operators is lower than that included in budget estimates releasing £140,000.

<u>Resources</u>

26. There have been no significant movements in the projected position.

<u>Law & Democracy</u>

27. There have been no significant movements in the projected position.

<u>Public Health</u>

28. There have been no significant movements in the projected position. It should be noted that the budget for Public Health is ring-fenced to spend in this service area. A report to Cabinet in June 2015 highlighted the potential implications of the announcement by the Government of an in year reduction in Public Health funding. The amount has subsequently been confirmed as £896,000. This shortfall will be met from unallocated Public Health grant in the current year.

<u>General Fund Balances</u>

29. The previous report to Members highlighted that General Fund Balances were at a level £406,000 in excess of the required 3% level.

30. The position has been updated to the 31 December 2015 and the balance in excess of the 3% requirement has increased to £595,000. This is largely due to an increase in Housing Benefit Subsidy.

31. The use of these balances is considered in Section 9 of this Report.

SECTION 4 - BIG TICKET UPDATE

32. The Medium Term Financial Plan in 2013 agreed the strategy that the Big Ticket Reviews would aim to stem future financial pressures in the areas of Adult Social Care, Childrens Social Care and Energy and Waste through:

- Reducing Costs in these areas where possible
- Stemming Growth through examining alternative means of service delivery

33. The position has been reviewed as at 31 December 2015, with the implications being summarised below.

Childrens Social Care

34. The MTFP report presented to Members in December reported that in setting the budget for 2015/16 a sum of £2,659,000 had been allocated to fund growth in this area in recognition of the transition period prior to delivery of target savings. The projections to the end of December 2015 indicate that only £2,081,000 will be required, so releasing a saving of £578,000. This represents an improvement of £168,000 from that reported previously.

35. Members will be aware of the pressures caused by independent foster care fees and the efforts to increase in house foster care and reduce the use of the independent sector. The savings above indicate an early positive move in this direction.

Adult Social Care

36. The 2015/16 budget established funding for a level of growth amounting to £800,000, to be offset by corresponding savings. Projections for the first nine months of the financial year show that overall the anticipated level of growth has not materialised and that reductions in volume and activity have led to savings. Overall, the impact is that a saving of £387,000 is expected over and above the savings target. This represents a small improvement to the position reported previously.

37. It has been noted in previous reports that the Service continues to face a number of areas of uncertainty and volatility that may impact on the financial position. These include:

- Care costs and care fees, particularly relating to the level of fees paid for residential care.
- The impact of the Care Act
- The financial impact of new responsibilities under the DOLS legislation.

Energy and Waste

38. There are no significant changes in the position since the previous report in December. There is expected to be a pressure in the current year due to the unusually long shut down of the waste facility for maintenance work which will cost £682,000.

Big Ticket Summary

39. The projections show that overall the Big Ticket Reviews are delivering within the allocated growth provision in the MTFP, with a combined saving of £283,000 against the resources allocated in 2015/16 which would increase General Fund Balances available to support the MTFP as one-off resources.

Future Years

40. The estimates of future growth and savings have been reviewed and re-assessed for each of the Big Ticket areas based on a detailed analysis of the information available. The projections have also been rolled forward to include 2019/20 and are included in the updated Medium Term Financial Plan at paragraph 56.

SECTION 5 - 2016/17 COUNCIL TAX LEVELS INCLUDING ADULT SOCIAL CARE LEVY

Core Council Tax

41. 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.

42. In previous years the Council has made decisions to increase Council Tax as opposed to freezing Council Tax levels and receiving one-off grant equivalent of 1%. If these decisions had not been taken, the financial pressure facing the Council would be approximately £2m higher than that outlined in this report. The Government have no longer offered a grant where Council Tax levels are frozen.

43. Given the increasingly challenging financial position, the current MTFP assumes a 1.9% increase. If Members opted to freeze Council Tax for 2016/17, the impact would be an additional pressure of £1.35m 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 33p per week increase in Band A (49p at Band D).

Council Tax Levy for Social Care

44. As highlighted in Section 2, there has been significant lobbying from within the Local Government Sector around pressures relating to Adult Social Care due to increasing costs relating to an ageing population. No funding has been allocated by the Government however they have indicated that the mechanism to support some of these pressures is the flexibility to raise a social care levy, through Council Tax and they have assumed in the Provisional Settlement that Authorities will adopt this levy at 2%. There is a clear requirement that this needs to be set against the context of the increasing cost and demand pressures in Adult Social Care, which will be exacerbated by the impact of the Government's proposals around Living Wage, to which no reference has been made in the Finance Settlement.

45. The table below demonstrates that the impact of the Living Wage is estimated to be £2m rising to £8m and the levy would contribute to this pressure but not fully fund it. This is in addition to the growth pressure and savings targets.

Adults - Living Wage & Levy	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Living Wage	2,000	4,000	6,000	8,000
2% Levy	-1,428	-2,943	-4,581	-6,329
Net Impact	**572**	**1,057**	**1,419**	**1,671**

46. The additional levy for Adult Social Care would result in a further increase of 34p per week (Band A) and 51p per week (Band D) and given the overall financial position, it is with reluctance that the recommendation is to implement the Governments levy. The impact of the total increase of 3.9% would be 67p per week (Band A) and £1 per week (Band D).

SECTION 6 – MEDIUM TERM FINANCIAL PLAN 2016-20

47. The indicative MTFP has been rolled forward one year to include 2019/20 and has been updated to reflect the impact of the National Funding Reductions outlined in paragraphs 11-21, National Policy changes and further updates.

48. The MTFP has been updated to reflect the National Funding position discussed in Section 2 notably changes to Care Settlement, New Homes Bonus and Better Care Fund.

49. One of the key announcements by the Chancellor in 2015 was the introduction of the National Living Wage. This will increase the minimum wage for an adult from £6.70 per hour in 2015/16 to £7.20 per hour from April 2016 and to over £9 per hour by 2020/21. At this stage we do not have information on how these increases will be profiled beyond April 2016 and therefore for modelling purposes we have assumed a straight line effect across the financial years. The increases will impact on staff directly employed by the local authority and for those employed via agencies. There is also expected to be a very significant impact on the fees paid for social care placements as there is a legal requirement to consider the actual costs of care homes in determining the rates paid.

50. An Apprenticeship Levy for large employers was announced in the Spending Review. We anticipate that this Levy will be implemented from 2017/18 and that it will amount to 0.5% of the pay bill. At this stage there is no information to suggest that local authorities will be exempted and therefore an anticipated cost of £330,000 per annum has been built into the MTFP.

51. Projections of the Council Tax base and the impact of the Local Council Tax Support Scheme have also been reviewed and projections updated accordingly. This is an area that will require to be kept under regular review as welfare reforms may have a long term impact on this aspect of council tax income. The long term collection rate has also been reviewed and increased from 97% to 98%, reflecting past performance in terms of collection of Council Tax income relating to prior years.

52. National Non-Domestic Rates – The reports to Cabinet in June and to Council in September 2015 highlighted the significant financial issues arising from the Business Rate Retention Scheme. At that time the negative impact on the MTFP was projected as being £4,770,000 in 2016/17 and £770,000 per annum thereafter. The position has now been updated to reflect the situation to the end of November 2015 and the updated position is incorporated in the figures below. This confirms the large deficit forecast in the summer. The impact of appeals continues to offset any growth in rateable value and therefore a cautious approach has been taken to projecting income from this source.

53. The MTFP has been updated to reflect the Chancellor's expectation, set out in the Spending Review, that increases to public sector pay would be limited to 1% per annum for the duration of the Parliament. The latest pay offer from the Local Government Employers reflects this position.

54. The MTFP has also been updated to reflect the fact that two service reviews from the EIT programme in Childrens Centres and Tees Active which were expected to slip will now be delivered in line with the original plan due to service restructures being implemented.

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Approved MTFP Position Sep 15 - Budget Gap	**11,322**	**11,637**	**17,099**	**16,882**
<u>National Funding and Policy Changes</u>				
Core Settlement Funding Reduction (RSG & NNDR)	1,367	2,795	1,748	5,609
NNDR Appeals	513	194	194	194
Social Care Reform	1,051	1,051	1,051	1,051
National Living Wage	2,000	4,100	6,400	8,600
Apprentice Levy	0	330	330	330
Public Health Grant Reductions	285	651	1,022	1,384
NHB Reductions (including minor update local projections)	2	4	1,925	1,904
Additional BCF Funding	0	-163	-2,655	-4,923
National Funding and Policy Impact	**5,218**	**8,962**	**10,015**	**14,149**
<u>Other Changes to MTFP</u>				
Council Tax Collection	-716	-519	-401	-422
Social Care Reform - uncommitted	-951	-951	-951	-951
Review Savings Delivered Early	-619	0	0	0
Pay Award - Estimate reduced from 2% to 1%	-880	-1,657	-2,445	-3,287
Miscellaneous Expenditure & Income Adjustments	-73	-474	-1,191	402
Revised Budget Gap	**13,301**	**16,998**	**22,126**	**26,773**

Funded By :				
Additional 2% Adult Social Care Increase	-1,428	-2,943	-4,581	-6,329
<u>Savings Programme</u>				
Sept 15 Report - Approved	-2,640	-3,145	-5,545	-6,135
Sept 15 Report - Report to Cabinet	-900	-5,000	-6,900	-6,900
Big Ticket Savings	-1,613	-3,336	-4,178	-5,403
Gap	**6,720**	**2,574**	**922**	**2,006**

56. Members will see from the table above that the overall impact of the National Funding and Policy Changes is approximately £5m in 2016/17 rising to £14m in 2019/20. Once other changes and before the savings programme and use of resources are taken into account the budget gap will be £13.3m in 2016/17 and £26.8m by 2019/20.

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Income				
RSG (inc LCTS)	21,960	14,648	9,839	4,995
NNDR	40,275	40,851	41,912	43,047
NNDR Appeals	-5,283	-964	-964	-964
Council Tax	72,793	74,746	76,696	78,698
New Homes Bonus	4,660	4,678	2,998	2,877
Social Care Reform	0	0	0	0
BCF (incl Pooled Budget share)	9,901	10,064	12,556	14,824
Public Health	14,648	14,282	13,911	13,549
Total Income	**158,954**	**158,305**	**156,948**	**157,026**
Expenditure				
Service Spend	166,467	166,599	167,064	168,277
Big Ticket Growth	3,788	4,604	5,610	6,922
National Living Wage	2,000	4,100	6,400	8,600
Total Expenditure	**172,255**	**175,303**	**179,074**	**183,799**
Budget Gap	**13,301**	**16,998**	**22,126**	**26,773**

Funded By :				
Additional 2% Adult Social Care Increase	-1,428	-2,943	-4,581	-6,329
<u>Savings Programme</u>				
Sept 15 Report - Approved	-2,640	-3,145	-5,545	-6,135
Sept 15 Report - Report to Cabinet	-900	-5,000	-6,900	-6,900
Big Ticket Savings Targets	-1,613	-3,336	-4,178	-5,403
GAP	**6,720**	**2,574**	**922**	**2,006**

57. The budget report in February 2015 earmarked £6.1m from Reserves to fund the 2016/17 budget gap to allow time for necessary savings to be delivered. Members will note from the table that an additional £620,000 is required in 2016/17. In order to control the managed approach, it is also recommended that the £2.6m gap in 2017/18 is also funded from Reserves.

58. This will be considered in Section 9 but demonstrates the value of prudent financial management and retaining reserves to allow a managed approach.

SECTION 7 – BIG PICTURE PROGRAMME – SERVICE REVIEWS

59. The report to Council in September outlined a number of areas where proposals would be submitted to Cabinet prior to implementation. Information and updates in respect of some of these areas are shown below with the overall programme shown at **Appendix A**.

Care for Your Area

60. Given the level of funding reductions and increasing demands on services, the Council can no longer continue to provide the level of service previously provided by the Care for Your Area Team. It is proposed to reduce the budget by targeting delivery more and reducing service standards.

The detail of how this will be implemented is currently being worked through and any opportunities to minimise the impact via efficiencies, rationalisation, etc, will be taken.

The impact will, however, include the introduction of a lower maintenance landscape with hardening of soft/grassed areas such as roundabouts for example; more mechanisation of the processes undertaken; cleanliness standards, grass-cutting and winter maintenance reduced with targeted delivery in key areas such as Town Centres. This is estimated to save £650,000 and Cabinet is asked to approve reductions in these areas with finer detail to be delegated to the Cabinet Member for Environment & Housing.

Environmental Health & Trading Standards

61. Again, the Council can no longer provide the level of service previously offered. All aspects of environmental health & trading standards work have been reviewed alongside statutory requirements. Management and “back-office” changes will be made with resultant savings and although mitigation will be put in place as far as possible to reduce the impact the following service changes are recommended in order to deliver savings of £230,000.

- Reduction in consumer advice, dog fouling and horse enforcement.
- Reductions to the non-statutory services of public nuisance, food safety and environmental protection.
- Introduce charging for some aspects of pest control.
- Reduce out of hours noise patrol.

It is recommended that the finer detail of the changes be delegated the Cabinet Member for Access, Communities & Community Safety.

Libraries

62. In line with the strategic direction agreed in September 2011, the upcoming library review will focus on the maintenance of the differentiated approach to services with six town centre libraries providing the widest range of services and smaller co-located branches giving access to a more basic offer. In addition, mobile and housebound services continue to target specific communities.

Excluding the town centre branches and the already co-located libraries there are two remaining branches; Egglescliffe and Fairfield. Egglescliffe is very small and is within a mile of Yarm which is being refurbished. To achieve the level of savings required it is suggested that Egglescliffe closes after the refurbished Yarm branch reopens. The last review concluded with a commitment to look for co-location opportunities for Fairfield but none have emerged. It may be possible to locate other services or partners into the building to generate income, as is the case with Newcastle Building Society in Yarm, and to further reduce opening hours. There may also be the opportunity here to provide an element of volunteer support, but only where that complements a professional staff element to ensure safe use of the management systems. It is not possible to provide a Stockton Council library on any site without paid staff hours for that site. Therefore, a reduced service augmented by volunteers would only be an option if co-location generated sufficient income or savings to allow for the retention of some staff resource. If a co-location solution cannot be found for Fairfield it will be necessary to close the facility to achieve the further savings required. This will of course be subject to impact assessments and consultation and a further report to Cabinet by autumn 2016.

Community Transport

63. The review of community transport is underway and is multi-faceted. In terms of operational delivery, improved practices around procurement and commissioning have been implemented as have improved working practices between the SEN section and the Transport section. Further work with operational activity is ongoing and will be reported to Cabinet in April 2016.

The number and complexity of demands from service users does, however, continue to grow placing increased pressure on the service/budget. Many Councils have reviewed and subsequently reduced transport policies with a view to targeting services to the most vulnerable. The main policies are for home to school transport (incl. SEN) and for adults/carers, officers are currently in the process of reviewing these. It is suggested that a new home to school policy be drafted for consultation at the conclusion of the current admissions rounds (1 March for Secondary and 16 April for Primary) and it will be presented to Cabinet prior to consultation. In particular, this Council 'over-delivers' on transport to faith schools and on distance for some primary children, a newly drafted policy will clearly stipulate these thresholds.

In terms of adults/carers a policy for the provision of transport for adult social care users and carers will be presented to Cabinet in the near future and will require public consultation in April. In essence the policy rests upon a general assumption and expectation that service users will meet their own needs for transport to access and take advantage of services or support where reasonably possible and taking into account of their assessed needs and abilities.

Childrens Centres

64. In 2012 a new hybrid retained/commissioned delivery model was put in place. Of the 12 Centres, 4 were retained and run by the Council in the areas of the highest deprivation, whilst the remainder were commissioned to delivery partners. Regular performance reports have been presented to Cabinet. The MTFP report to Cabinet in July 2015 suggested a comprehensive Borough-wide review be undertaken with a view to achieving further savings alongside responding to a national Government review currently ongoing and reflecting the work underway relating to early intervention and health initiatives.

The proposal for future working involves a fundamental review of the role, purpose and delivery model for children's centres, and may include the following:

- Potentially significantly reducing the number of children's centres and moving to a model of hubs serving the most disadvantaged communities
- Delivering targeted additional support for 0-3s alongside adult learning, outreach/community development and volunteering
- Reviewing the model for the delivery of crèche and stay and play provision and the potential use of some buildings to deliver commissioned childcare
- New models for the delivery of universal services, working in partnership with health providers, schools and local early years and childcare providers
- Building on the work undertaken as part of the Fairer Start initiative with a focus on volunteering in communities.

A final report will be submitted to Cabinet in June/July 2016 following consultation.

Review of Housing Service

65. Changes are proposed to further reduce management costs and to rearrange some of the housing functions so that the dedicated front line homeless prevention team will be supported by housing solutions/strategy team (merger of former functions) and whose role is to ensure we address housing need. Services will continue to be directed towards the most vulnerable with a triage approach across the service. The proposal is still to provide good quality private sector and empty homes services though there will be inevitably be some reduction in service standards due to reduced staffing levels.

SECTION 8 – FUTURE CHANGES & RISKS

66. Recent Government announcements have highlighted a number of potential issues and risks that may impact on the future financial position. They are summarised below.

Retention of Business Rates & New Responsibilities

67. The Government announced as part of the Spending Review that there will be a fundamental review of the way in which Councils are funded. The proposal announced by the Chancellor is to move to a system whereby Local Government is funded through 100% Business Rate retention by the end of the Parliament. The move to 100% Business Rates Retention by the end of this Parliament will be accompanied by the phasing out of Revenue Support Grant and the transfer of new responsibilities to local government to be funded from Business Rates retained. A consultation will be launched in summer 2016. The design of any future scheme is critical and until further information is received a high degree of caution must be taken for the latter years of the MTFP. This represents a very significant change to the funding of local authorities and the design of the new scheme will be crucial in how it impacts on local authorities at a local and regional level.

68. Alongside the move to 100% retention of Business Rates, and to allow this to happen, the Spending Review includes reference to additional responsibilities that will be transferred to local authorities by the end of the Parliament. It is suggested that the government would consider transferring responsibility for funding the administration of housing benefit for pensioners and public health and the Finance Settlement indicated that Attendance Allowances could also be transferred from DWP.

New Homes Bonus

69. The Government have commenced consultation around changes to the system of distributing New Homes Bonus. This is linked to an overall reduction in funding nationally of £800m and the indicative allocation for future years included elsewhere in the report needs to be treat with huge caution. The key issues around the consultation are:

- Reduction in payments for Councils with no local plan prepared / adopted
- Setting a baseline for growth and only paying above it
- Paying a reduced level where planning permission is not granted and development is granted following appeal

School Funding

70. A national funding formula for schools will also be consulted upon in 2016 and introduced from April 2017. The impact on Stockton schools will need to be assessed. The Spending Review also indicated that there would be an expectation of more schools converting to Academy status with a diminishing role for Local Authorities. They have also announced a reduction of £600m in the Education Support Grant (ESG). This sum could be seen as representing around 75% of the national total. Over time this could mean that grant funding of up to £2m is at risk for Stockton.

SECTION 9 – RESERVES AND ONE OFF RESOURCES

One-off Resources

71. As part of the budget process Members are asked to consider how one off resources will be allocated. The current position is outlined below.

72. The Council is expected to generate £4,600,000 from Asset Disposals, as outlined in previous reports on the Asset Review and Disposal Strategy. A sum of £750,000 has also been identified for release in respect of funding allocated to the Playing Pitch Strategy which is no longer required.

73. The level of General Fund Balances required to be held by the Council is 3% of Net Revenue Expenditure. This Report identifies that the balance at 31 March 2016 is projected to be £595,000 above this required level and in addition a sum of £283,000 is released from the Big Ticket resources (see paragraph 39). This excess sum is therefore available for consideration as a one-off resource.

74. Re-alignment of adult social care expenditure in 2015/16 has released on-off resource of £3,410,000.

75. 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 £1.8m.

76. The overall position on available capital and one-off resources can be summarised as follows:

Source	£'000
Capital Receipts – Asset Disposals	4,600
Playing Pitch Strategy	750
Expenditure Alignment	3,410
General Fund Balances	878
Council Tax Collection Surplus	1,812
Total Resources Available	**11,450**

77. The above table demonstrates that there is £11.5m in one off resources available.

<u>Calls on One-Off Resources</u>

78. **Use of Reserves to Manage the MTFP** - Paragraph 57 outlines the need to earmark an additional £0.62m to balance the budget in 2016/17. Given the timescales involved and the fact the Council are currently embarking on the Big Picture Savings Programme, it would be extremely ambitious to save the additional £2.6m required by 2017/18. It is suggested therefore that this is also earmarked from Reserves. This demonstrates the value of having the flexibility of Reserves through sound financial management to manage the transition caused by volatile funding reductions.

79. **Heritage and Town Centre Development** – It is recommended that £2.5m is retained to support Heritage initiatives and development in the Town Centre. As part of the detailed work on a number of projects, match funding may be required and alternative delivery structures possible to enable developments to take place. Further reports will be provided to Cabinet.

80. **Business Improvement District** – a BID is being developed by businesses in Stockton Town Centre. Provision of Match Funding will help the BID process and deliver further investment into the town centre (£250,000).

81. **Transformation Reserve –** Members will be aware that we have operated a reserve to manage and support service transformation. As well as supporting redundancy costs, this has supported investment to drive change and savings. It is recommended that further resources are needed to replenish this reserve and if this is not undertaken it could significantly impact on the Council's ability to manage change.

82. **Estate Shops –** There has been significant investment and redevelopment in all of our Town Centres and in order to continue to regenerate and improve the Borough, it is suggested that a sum of £450,000 is allocated to support investment in estate shops and associated infrastructure. Schemes will be developed by officers and signed off by the Cabinet Member. One such scheme which is ready to progress is Windlestone Road.

83. There are a number of events and activities planned across the Borough as part of the Queen's birthday celebrations and it is recommended that £30,000 is earmarked for this purpose.

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

Identified Use	Amount (£'000)
Additional resource to support MTFP	3,220
Heritage Support	2,500
Town Centre BID Match Funding	250
Transformation Reserve	5,000
Estate Shops	450
Queen's Birthday Celebrations	30
Total	**11,450**

85. It should be noted that the sum of £10m, identified for Infrastructure for South of the Borough, is still approved and committed for the development of a Leisure Facility in Ingleby Barwick.

86. The Council is continuing to explore innovative models of infrastructure development to support the regeneration of the Borough and one such initiative is for the development of a hotel in Stockton Town Centre. Initial studies indicate there is a significant demand and this would increase the economic activity of the town and support the overall regeneration. The detailed business case is currently being developed, however this is likely to require significant upfront capital expenditure which would require prudential borrowing, the borrowing costs being repaid from the profit generated. A detailed report outlining the business case and borrowing requirements will be submitted to Cabinet and Council.

SECTION 10 – CAPITAL PROGRAMME

2015/16 Programme

87. The current Capital Programme as at 31 December 2015 is shown at **Appendix B** and summarised below:

Capital Programme December 2015 BC

CAPITAL PROGRAMME 2012-2019	Current Approved Programme	Programme Revisions	Revised Programme
	£'000	£'000	£'000
Schools Capital	17,077	-17	17,059
Housing Regeneration & Town Centres Schemes	27,801	22	27,283
Transportation	29,464	3,592	33,056
Other Schemes	41,437	16	41,453
Total Approved Capital MTFP	**115,779**	**3,613**	**119,391**

Reasons for Movements over £100,000

New Schemes

88. The capital programme has been updated to reflect confirmation of LGF funding & developer contributions for capacity improvements at Ingleby Barwick district centre comprising dualling of Ingleby Way/Myton Way; this brings the scheme total to £4,650,000.

Cost Variances

89. Following completion of the annex to Ash Trees School on the former Rievaulx site, a saving of £500,000 due to the level of works required being lower than anticipated can now be returned back to the unallocated basic need provision for future allocation.

2015 – 2019 Capital Programme

90. The Capital Programme has now been updated to reflect the above amendments and is shown at **Appendix C**.

SECTION 11 – BUSINESS RATE RELIEF SCHEME

91. The 2015 Autumn Statement introduced some changes to business rates which will affect the Council's income during 2016/17. These changes include:

- A further extension to the doubling up of the small business rate relief scheme until March 2017;
- The temporary retail relief introduced in 2014/15 and 2015/16 for shops, restaurants and pubs will cease as at 31 March 2016; it has not been extended;
- An extension to the transitional arrangements for smaller properties with a rateable value of £50,000 or less that would otherwise have faced significant increases in their rates bill due to the ending of the transitional rate relief, continues until March 2017.

SECTION 12 – PAY POLICY

92. 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 with effect from 1 April 2016 we will further amend the pay and grading structure to start at Grade C scp 10, currently £7.43 per hour, which with the 2016 national pay settlement (still outstanding) will be well above the Government's national living

wage of £7.20 per hour. This further amendment has no additional financial implication as progression within Grade C from scp 8 to 10 is already within the budget.

93. In addition it is proposed to increase the apprentice rate (£3.30 per hour) to the national minimum wage for age (starting at £3.87 for 16 to 18 year olds) with effect from 1 April 2016. The Council currently has 21 apprentices and this change will attract and more fairly reward our apprentices. The cost of increasing the apprentice hourly rate is £65,000 per annum.

94. The Council's pay policy statement (reflecting the changes proposed above) is at **Appendix D**. It is worth noting that the 'pay multiple' for the Council, which 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 2015 has decreased. The Council's current Median Hourly rate is £10.81 (£10.27 in 2015/16) and the pay multiple is 7.92 (8.34 in 2015/16). The increase in median hourly rate and decrease in the pay multiple reflects the Council's move towards a living wage since April 2014 whilst the Chief Executive's pay has not increased in that period.

95. Further to the Senior Management Review the NJC grading structure extended to add 2 further grades below Chief Officer grades in order to ensure that there is adequate capacity and support for the Corporate Management Team. There are no additional financial implications as a result of this addition.

96. The plans in place to deliver the changes that are needed to meet the financial challenge obviously have a significant impact on all our employees. The Council now employs 814 FTE less than in 2010/11 and it is expected that the workforce will reduce further by the end of the current MTFP period. Since April 2015 to date 58 employees left the Council's employment due to redundancy (36 voluntary redundancy, 22 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.

97. 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.

SECTION 13 – PRECEPT LEVELS

Stockton Precept

98. Stockton's current tax level for 2015/16 at Band A (the biggest percentage of its properties) is £891.73 (£17.10 per week).

	Band A £	Band D £
2015/16	891.73	1,337.60
2016/17	926.51	1,389.77

Police Precept

99. The Police & Crime Commissioner has indicated a Council Tax Increase of 1.99%

	Band A £	Band D £
2015/16	137.51	206.26
2016/17	140.24	210.36

Fire Authority

100. A report to the Fire Authority on 12 February 2016 outlines a proposed Council Tax increase of 1.9%.

	Band A £	Band D £
2015/16	46.91	70.36
2016/17	47.80	71.70

Parishes

101. Details of the Parish precepts are given below:

Parish	2015/16 Precept £	2016/17 Precept £	Increase/ Decrease £	%	LCTS Grant Both Years £	2016/17 TOTAL £
Aislaby & Newsham	0	0	0	0.00%	0	0
Carlton	4,520	4,498	(22)	-0.49%	22	4,520
Castleleavington / Kirklevington	10,652	11,652	1,000	9.39%	348	12,000
Egglescliffe & Eaglescliffe	53,340	52,970	(370)	-0.69%	5,446	58,416
Elton	0	0	0	0.00%	0	0
Grindon	12,000	13,500	1,500	12.50%	0	13,500
Hilton	1,856	1,856	0	0.00%	129	1,985
Ingleby Barwick	138,172	138,172	0	0.00%	3,445	141,617
Long Newton	11,764	11,764	0	0.00%	236	12,000
Maltby	2,362	2,362	0	0.00%	138	2,500
Preston	5,029	5,029	0	0.00%	471	5,500
Redmarshall	2,500	2,700	200	8.00%	118	2,818
Stillington & Whitton	7,257	7,757	500	6.89%	1,243	9,000
Thornaby	103,950	138,360	34,410	33.10%	36,050	174,410
Wolviston	10,619	11,206	587	5.53%	533	11,739
Yarm	93,359	93,359	0	0.00%	6,141	99,500
Billingham	191,748	204,016	12,268	6.40%	23,509	227,525
Total	**649,128**	**699,201**	**50,073**	**7.71%**	**77,829**	**777,030**

Overall Tax Position

102. 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 £74,221,362 is given below:

Tax 2016/17			
	Current 2015/16 (Band A) £	Proposed 2016/17 (Band A) £	Increase %
Police	137.51	140.24	1.99
Fire	46.91	47.80	1.90
Stockton BC	891.73	926.51	3.90

Formal Tax Recommendations

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

SECTION 14 – TREASURY MANAGEMENT

104. The Treasury Management Strategy is set out at **Appendix F** for Council Approval.

105. The Strategy has been updated to incorporate the revised counter party limits recommended by our Treasury Management Advisors (CAPITA Asset Services). The updated Strategy also includes the ability to utilise Pooled Property Funds, subject to an appraisal being considered and approved by Cabinet prior to their being used.

SECTION 15 – RESERVES POLICY

106. It is good practice to formalise the arrangements for Council Reserves. The Council's policy for Reserves has been reviewed and is attached at **Appendix G**.

Appendix A

Big Picture Programme Service Reviews

Cabinet Report Descriptor Savings Proposals 2016	**Proposal**	**Notes**	**Lead**	**Start Date**	**End Date**	**Cabinet Report Date**	**Consult Y/N**
Care for Your Area	See Section 7 of report		Paul Dobson / Jamie McCann	Apr 2016	March 2018	Feb 2016 [MTFP]	N
Environmental Health and Trading Standards	See Section 7 of report		Peter Kelly	Jan 2016	June 2016	Feb 2016 [MTFP]	N
Libraries	See Section 7 of report		Julie Nixon	Jan 2016	Mar 16	Feb 2016 [MTFP] Autumn 16	Y
Community Transport – Adults	See Section 7 of report		Sean McEneany	Now	Feb 2016	Feb 2016 [MTFP]	Y
Community Transport – Children's	See Section 7 of report		Lynda Brown	Now	Feb 2016	Feb 2016 [MTFP]	Y
Children's Centres **	See Section 7 of report	This is the review only. People scrutiny 13/1/16	Lynda Brown	Now	Feb 2016	Feb 2016 [MTFP]	Y
	Implementation of review following consultation	Implementation	Jane Humphreys	Jul 2016	Mar 2017	Jun / Jul 2016	

** Reviews subject to Scrutiny Committee

Cabinet Report Descriptor Savings Proposals 2016	Proposal	Notes	Lead	Start Date	End Date	Cabinet Report Date	Consult Y/N
Housing	Review of Housing functions to ensure a more streamlined and targeted approach		Julie Nixon	Nov 2015	June 2016	March 2016	N
Community Safety / Security Services	Introduce a more targeted delivery model - Community Safety Reduce Service - no longer 24 hour- Security Services		Jamie McCann	April 2016	March 2018	Various	N
Waste & Refuse Collection **	Full Review of Waste Collection & Disposal. Includes general waste, recycling, green waste.	Place scrutiny to make initial recommendations (March 2016)	Paul Dobson	April 2016	March 2017	Dec 2016	Y
Transport & Highways	More targeted traffic management and road safety activity		Richard McGuckin	Apr 16	Sept 16	Jun 16	N
Transport / Highways	Review 16-19 Subsidised transport to provide statutory and targeted service			Apr 16	Mar 17	Nov / Dec 16	Y
Transport / Highways	Review of school crossing patrol provision across the Borough			Apr 16	Mar 17	Dec 16	Y
Arts Development, Festivals and Event	Review Arts Development and the delivery of SIRF and scale of support to BIFF. Review events programme to reflect reduced external funding and private sponsorship.		Paul Dobson	April 2016	March 2017	Dec 2016	N

Cabinet Report Descriptor Savings Proposals 2016	Proposal	Notes	Lead	Start Date	End Date	Cabinet Report Date	Consult Y/N
Forum Theatre Review	Investigate partnership options		Paul Dobson	April 2016	Dec 2017	Dec 2017	N
Leisure	Managed reduction of subsidy to TAL in line with income projections.		Paul Dobson	Now	July 2016	Feb 2016	N
Museums and Leisure Activities	Develop commercial activities and review charging policies at Preston Hall Museum.		Reuben Kench	Nov 2015	Sept 2016	Jun 2016	N
Performance, Improvement and Engagement	Develop a different model of support to voluntary sector following up front investment and transformation.		Lesley King	April 2016	March 2018	Dec 2017	N
Youth Services **	Fundamental review of Youth Service, Connexions, YOS. Consider statutory minimum and ensure a more effective and targeted approach.		Julie Nixon	Jan 2016	April 2017	Sept 2016	Y
Education Support Grant	Assessment of the impact of the reduction in Education Support Grant – what this means for the delivery of this service.		Diane McConnell	Now	April 2016	April 2016	Y (schools)

Appendix B

Capital Programme – December 2015

CAPITAL PROGRAMME 2012-2019	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure April 2012 - December 2015
SCHOOL CAPITAL				
School Investment Programme	17,076,558	(17,291)	17,059,267	3,810,031
SCHOOLS CAPITAL	**17,076,558**	**(17,291)**	**17,059,267**	**3,810,031**
HOUSING REGENERATION & TOWN CENTRES SCHEMES				
Housing Regeneration	10,909,402	21,718	10,931,120	8,046,049
Stockton Town Centre Schemes	8,144,267	0	8,144,267	1,615,313
Billingham Town Centre Schemes	1,918,445	0	1,918,445	1,838,985
Other Regeneration Schemes	6,828,830	0	6,828,830	6,047,913
HOUSING REGENERATION & TOWN CENTRES SCHEMES	**27,800,944**	**21,718**	**27,822,662**	**17,548,260**
TRANSPORTATION				
Local Transport Plans	11,288,691	(142,000)	11,146,691	964,357
Other Transport Schemes	11,757,733	3,603,976	15,361,709	11,824,961
Developer Agreements	4,756,262	80,000	4,836,262	3,670,288
Tees Valley Bus Network Initiative	1,661,370	50,000	1,711,370	1,653,927
TRANSPORTATION	**29,464,056**	**3,591,976**	**33,056,032**	**18,113,533**
OTHER SCHEMES				
Private Sector Housing	2,444,061	0	2,444,061	1,122,232
Building Management & Asset Review	3,536,160	13,400	3,549,560	1,452,276
ICT & Infrastructure	495,214	0	495,214	94,307
Parks, Museums & Cemeteries	3,364,079	3,000	3,367,079	2,776,569
Energy Efficiency Schemes	13,240,000	0	13,240,000	5,819,418
Other Schemes	18,357,529	0	18,357,529	4,590,501
OTHER SCHEMES	**41,437,044**	**16,400**	**41,453,444**	**15,855,303**
Total Approved Capital MTFP	**115,778,602**	**3,612,803**	**119,391,405**	**55,327,127**

Appendix C

Capital Programme – New Approvals

CAPITAL PROGRAMME 2012-2019	Current Approved Programme	New Approvals (Part of Report)	Total
SCHOOL CAPITAL			
School Investment Programme			
Planned Maintenance	4,405,734		4,405,734
Rosebrook School	603,000		603,000
Ash Trees School	1,500,000		1,500,000
School Kitchen Improvements	444,558		444,558
Unallocated Basic Need Capital Funding	10,105,973		10,105,973
	17,059,267	**0**	**17,059,267**
HOUSING REGENERATION & TOWN CENTRES SCHEMES			
Housing Regeneration			
Mandale Regeneration	3,704,601		3,704,601
Victoria Estate Regeneration	3,097,462		3,097,462
Parkfield Regeneration	2,544,113		2,544,113
Swainby Road Regeneration	1,380,555		1,380,555
Hardwick Regeneration	204,389		204,389
	10,931,120	**0**	**10,931,120**
Stockton Town Centre			
Stockton Town Centre - Infrastructure Projects	4,020,378		4,020,378
Townscape Heritage Initiative	1,473,889		1,473,889
THI Match Funding	500,000		500,000
Globe Theatre Refurbishment	1,150,000		1,150,000
Courtyard Improvements	1,000,000		1,000,000
	8,144,267	**0**	**8,144,267**
Billingham Town Centre Schemes			
Billingham Town Centre - Public Realm	1,912,445		1,912,445
Billingham Library & Contact Facility	6,000		6,000
	1,918,445	**0**	**1,918,445**
Other Regeneration Schemes			
Northshore Innovation Centre	6,328,830		6,328,830
Strategic Acquisitions	500,000		500,000
	6,828,830	**0**	**6,828,830**
TRANSPORTATION			
LTP - Integrated Transport	4,483,539		4,483,539
LTP - Structural Maintenance	6,663,152		6,663,152
Blakeston Lane / Junction Rd Improvements	767,021		767,021
Preston Park Additional Car Parking	800,000		800,000
Congestion Relief, A174/A1044 Thornaby Road	2,741,000		2,741,000
LGF Schemes	6,867,688		6,867,688
Newport Bridge - Repainting	4,186,000		4,186,000
Developer Agreements	4,836,262		4,836,262
Tees Valley Bus Network Initiative	1,711,370		1,711,370
	33,056,032	**0**	**33,056,032**

OTHER SCHEMES			
Private Sector Housing			
Disabled Adaptations	1,766,161		1,766,161
Regional Loan Scheme	177,900		177,900
Empty Homes - Regional Scheme	500,000		500,000
	2,444,061	**0**	**2,444,061**
Building Management & Asset Review			
Building Maintenance Programme	396,378		396,378
Libraries Improvements	891,000		891,000
Billingham Campus Site Improvements	345,544		345,544
Delivery of Playing Pitch Strategy	1,046,691		1,046,691
SSFC / OL&SB Accommodation & Car Park	361,708		361,708
EDC Demolition	150,058		150,058
70 Norton Road - Relocation of Looked After Children Service	175,000		175,000
Kingsway House reception	110,181		110,181
Stirling House Refurb	73,000		73,000
	3,549,560	**0**	**3,549,560**
Resources / ICT & Infrastructure			
A2S: ICT Cost	180,214		180,214
Broadband Infrastructure	315,000		315,000
	495,214	**0**	**495,214**
Parks, Museums & Cemeteries			
Preston Hall - Museum Project	1,439,187		1,439,187
Parks Improvement Programme	1,555,072		1,555,072
Cemeteries	372,820		372,820
	3,367,079	**0**	**3,367,079**
Energy Efficiency Schemes			
District Heating Schemes	340,000		340,000
Major Street Lighting Investment	12,900,000		12,900,000
	13,240,000	**0**	**13,240,000**
Other Schemes			
Funding Early Education for Two Year Olds	406,701		406,701
Short Breaks for Disabled Children	173,667		173,667
Community Capacity Projects	972,229		972,229
ACMT ICT System	210,000		210,000
Allensway Kitchen Refurbishment	180,000		180,000
Joint Venture Investments	2,750,000		2,750,000
School Pitches	128,000		128,000
Foster Carer Adaptations	43,650		43,650
Halcyon Centre - Dementia Hub	52,395		52,395
Children & families ICT equipment	65,408		65,408
Vehicle Replacement Fund	2,024,479		2,024,479
Flood Support - Repair and Renewal Grant Scheme	221,000		221,000
Tees Active - High Rope Course	1,080,000		1,080,000
Leisure Facility Ingleby Barwick	10,000,000		10,000,000
Ingleby Barwick Community Centre Contribution	50,000		50,000
	18,357,529	**0**	**18,357,529**
Total Approved Capital MTFP	**119,391,405**	**0**	**119,391,405**

CAPITAL PROGRAMME 2012-2018	Current Approved Programme	New Approvals (Part of Report)	TOTAL
Government Support	44,956,693	0	44,956,693
Earmarked Resources / Receipts	12,353,622	0	12,353,622
Earmarked Housing Regeneration Receipts	6,687,808	0	6,687,808
Prudential Borrowing	1,182,718	0	1,182,718
Other Contributions	8,736,159	0	8,736,159
Corporate One-Off Resources	45,474,405	0	45,474,405
Total Approved Funding Capital MTFP	**119,391,405**	**0**	**119,391,405**

Appendix D

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

This Pay Policy Statement applies to the financial year 2016/17.

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'**

The Council is committed to working towards the Living Wage and as a result has removed Grades A and B from its grading structure and now starts its pay and grading structure at Grade C, spinal column point 10. Employees who are employed in jobs which are paid at Grade C (spinal column point 10, currently £7.43 per hour) are therefore our lowest paid employees other than apprentices.

From 1st April 2016 the salaries attributable to apprentices are paid at the National Minimum Wage relating to age (starting at £3.87 per hour for 16 to 18 year olds, compared to the national apprentice rate of £3.30 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 are: **Grade** — **Salary** Chief Executive — £165,191 Deputy Chief Executive — £133,527 Director – Level 1 — £112,500 Director – Level 2 — £102,000 Director – Level 3 — £92,000 Assistant Director – Level 1 — £87,500 Assistant Director – Level 2 — £82,500 Soulbury — £75,988 to £82,747
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: o 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 OF EX EMPLOYEES AS CHIEF OFFICERS UNDER A CONTRACT FOR SERVICES**
5.1.	The Council does not generally support the employment of ex-employees as Chief Officers 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 proposing to introduce legislation to enable recovery of exit payments for higher paid employees returning to the public sector. The Council may therefore need to amend its policy and practices 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. As part of its continued commitment the Council has agreed to delete spinal column points (scp) 8 and 9 with effect from 1st April 2016 and therefore the Council's pay and grading structure starts with grade C (scp 10)
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 £10.81 (£10.27 in 2015/16) and the pay multiple is 7.92 (8.34 in 2015/16). The increase in median hourly rate and decrease in the pay multiple reflects the Council's move towards a living wage from April 2014 whilst the Chief Executive's pay has not increased in that period.
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 31st March and information related to the public sector equality duty no later than 30th June.

Appendix E
(to follow)

Formal Council Tax Resolution

Appendix F

PRUDENTIAL CODE AND TREASURY MANAGEMENT STRATEGY 2016/17

Introduction

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

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

3. CIPFA defines treasury management as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Capital Prudential Indicators 2016/17 – 2018/19

4. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected activity or introduces limits upon the activity, reflecting the outcome of the Council's underlying capital appraisal systems.

5. 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.

6. 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:

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Expenditure					
General Fund	46,341	52,881	23,600	6,194	993
Total Financing					
Capital receipts	(4,139)	(8,049)	(2,530)	(1,317)	(993)
Capital grants	(17,889)	(20,370)	(9,901)	(4,877)	-
Capital contributions	(2,919)	(5,052)	(958)	-	-
Revenue	(21,394)	(19,018)	(9,833)	-	-
Net financing need (borrowing) for the year	**-**	**392**	**378**	**-**	**-**
(of which Prudential Borrowing)	**-**	-	-	-	-

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)

7. 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.

8. 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.

9. 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 £7.4million of such schemes within the CFR at the start of the financial year.

10. The Council is recommended to approve the CFR projections below:

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Financing Requirement					
General Fund	109,347	104,802	100,414	96,164	92,045
PFI & Finance Leases	7,354	6,709	6,165	5,807	5,664
Total	**116,701**	**111,511**	**106,579**	**101,971**	**97,709**
Movement in CFR	(5,638)	(5,190)	(4,932)	(4,608)	(4,262)

Movement in CFR represented by:					
Net financing need for the year	-	-	-	-	-
MRP/VRP and other financing movements	(5,638)	(5,190)	(4,932)	(4,608)	(4,262)
Movement in CFR	(5,638)	(5,190)	(4,932)	(4,608)	(4,262)

Minimum Revenue Provision (MRP) Policy Statement

11. 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).

12. 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.

13. 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 the Capital Financing Requirement (option 2);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Directive)(option 3);

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.

Affordability Prudential Indicators

14. 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

15. 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.

	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	2.8	2.7	2.6	2.4	2.2

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

Incremental impact of capital investment decisions on council tax

16. 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. There are no plans to use borrowing in the next three years and prudential borrowing is being financed from savings in services, there is no impact on future Council Tax levels.

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

	2014/15 Actual £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Council tax – band D	-	-	-	-	-

BORROWING

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

Current Treasury position and forward projections

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

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
External Debt					
Debt at 1 April	56,237	48,044	47,854	47,681	47,414
Maturing Debt	(8,193)	(190)	(173)	(267)	(156)
New Debt taken/to be taken out	-	-	-	-	-
Gross Debt at 31 March	**48,044**	**47,854**	**47,681**	**47,414**	**47,258**
The Capital Financing Requirement (ex PFI & Finance Leases)	109,347	104,802	100,414	96,164	92,045
(Under)/over borrowed	(61,303)	(56,948)	(52,733)	(48,750)	(44,787)
Total Investments at 31 March	76,405	80,000	80,000	80,000	80,000
Investment change	(21,095)	3,595	-	-	-
Net Debt at 31st March	**28,361**	**32,146**	**32,319**	**32,586**	**32,742**

19. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

20. The Deputy Chief Executive reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury indicators: limits to borrowing activity

21. 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.

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

Authorised Limit	**2015/16 Estimate £'000**	**2016/17 Estimated £'000**	**2017/18 Estimated £'000**	**2018/19 Estimated £'000**
Borrowing	120,602	116,214	111,964	107,845
Other long term liabilities	9,354	8,709	8,165	7,807
Total	**129,956**	**124,923**	**120,129**	**115,652**
Operational Boundary				
Borrowing	104,802	100,414	96,164	92,045
Other long term liabilities	9,354	8,709	8,165	7,807
Total	**116,647**	**109,242**	**104,384**	**99,873**

The Prospects for Interest Rates

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

	Bank Rate %	**PWLB Borrowing Rates % (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
March 2016	0.50	2.40	3.70	3.60
June 2016	0.75	2.60	3.80	3.70
September 2016	0.75	2.70	3.90	3.80
December 2016	1.00	2.80	4.00	3.90
March 2017	1.00	2.80	4.10	4.00
June 2017	1.25	2.90	4.10	4.00
September 2017	1.50	3.00	4.20	4.10
December 2017	1.50	3.20	4.30	4.20
March 2018	1.75	3.30	4.30	4.20
June 2018	1.75	3.40	4.40	4.30
September 2018	2.00	3.50	4.40	4.30
December 2018	2.00	3.50	4.40	4.30
March 2019	2.00	3.60	4.50	4.40

24. **UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the

2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

25. The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp increase from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

26. **USA.** The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

27. In the **Eurozone**, in January 2015 the ECB implemented a €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

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

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

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

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

Borrowing Strategy

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

31. Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Deputy Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *If it was felt that there was a significant risk of a sharp FALL in long and short term rates*, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast*, perhaps from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the borrowing portfolio will be re-appraised with the likely action that fixed rate borrowing will be undertaken whilst interest rates are still lower than they will be in the next few years.

Treasury Management Limits on Activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

	2016/17	2017/18	2018/19
Interest Rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2016/17		
	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%

Policy on Borrowing in Advance of Need

34. The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the quarterly or annual reporting mechanism.

Debt Rescheduling

35. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, given the Council's loan portfolio consists mainly of market rather than PWLB debt, any opportunities for rescheduling will be very limited. Consequently, any savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

36. The reasons for any rescheduling to take place will include;

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

37. The option of postponing borrowing and running down investment balances even further will also be considered. This would reduce counter-party risk and also mitigate against any expected fall in future investment returns as short term rates on investments are likely to be lower than rates paid on current debt.

ANNUAL INVESTMENT STRATEGY

Changes to credit rating methodology

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

Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

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

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

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

Investment Policy

42. The Council's investment policy has regard to CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities (in order) are:

    1) safeguarding the re-payment of the principal and interest of its investments on time;
    2) ensuring adequate liquidity, and finally
    3) the investment return.

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

44. The Council's officers recognise that ratings are not the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. To this end the Council will also take into account other information such as Credit Default Swap pricing, articles in the financial press, share prices and any other information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of investment counterparties.

45. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

46. Investment instruments identified for use in the financial year are listed in Annex A under the “Specified” and “Non-Specified” Investment categories. Counterparty limits will be as set through the Council’s Treasury Management Practices-Schedules.

Creditworthiness policy

47. The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counter-parties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and

    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

48. The Deputy Chief Executive will maintain a counter-party list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines Specified and Non-Specified investments as it provides an overall pool of counter-parties considered high quality the Council may use, rather than defining what types of investment instruments are to be used.

49. Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

50. The criteria for providing a pool of high quality investment counter-parties (both Specified and Non-specified investments) is:

    - **Banks 1** - **Good Credit Quality** - the Council will only use banks which:
        - Are UK banks: and/or
        - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA

      And have, as a minimum, the following Fitch, Moody’s and Standard and Poor’s credit ratings (where rated):
        - Short Term – F2/P2/A-2
        - Long Term – AA-/Aa3/AA-
    - **Banks 2** - **Part nationalised UK bank** - Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or they meet the ratings criteria in Banks 1 above.
    - **Banks 3** - The Council’s own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
    - **Bank Subsidiary and Treasury Operations** - the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- **Building Societies** - the Council will use all Societies which:
    a) meet the ratings for banks outlined above;
    b) have assets in excess of £2 billion;
    or meet both criteria.
- **Money Market Funds (MMFs)** – that are AAA rated limited to £5m each.
- **Enhanced Money Market Funds (EMMFs) –** that are AAA rated limited to £5m each.
- **UK Government** (including gilts and the Debt Management Office) - unlimited
- **Local Authorities, Police & Crime Commissioners, Fire Authorities** - limit £10m each
- **Property funds** - currently the Council does not invest in property funds. Property funds are a form of collective investment fund. Investors make lump-sum investments which are pooled together and used to purchase a range of assets. The option to use property funds has been included in this report however any decision to invest in the funds would be delegated to Cabinet following a report and further due diligence being performed.

51. **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

    - No more than £60m will be placed with any non-UK country at any time,
    - Limits in place above will apply to Group companies,
    - Sector limits will be monitored regularly for appropriateness.

52. **Use of additional information other than credit ratings.**
    Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counter-parties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

53. **Time and Monetary Limits applying to Investments.**
    The time and monetary limits for institutions on the Council's Counterparty List are as follows:

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
Upper Limit Category (long term)	AA-	Aa3	AA-	£30m Each	1 to 3 years
Middle Limit Category (short term)	F2	P2	A-2	£20m Each	Up to and including 364 days
Part-nationalised UK Banks: *RBS Group*	-	-	-	£20m	Up to 2 years
Upper Limit & Middle Limit Categories	For those banks that meet the above rating criteria, additional sums of up to £20m each can be placed in accounts that can be withdrawn within 24 hours.				
Lower Limit Category	Unrated Building Societies with assets in excess of £2 billion			£7m Each	Up to and including 364 days
Other Institutions					
Money Market Funds	AAA	AAA	AAA	£5m Each	Up to and including 364 days
Enhanced Money Market Funds	AAA	AAA	AAA	£5m Each	Up to and including 364 days
UK Government	-	-	-	unlimited	unlimited
Local Authorities Police and Crime Commissioners Fire Authorities	-	-	-	£10m Each	1 to 3 years
Property Funds	-	-	-	£10m Each	unlimited

(The Upper and Middle Limit categories will include banks and building societies. The Lower Limit Category will normally just be used for un-rated subsidiaries and un-rated building societies. The Other Institution Limit will be for other local authorities, the Debt Management Account Deposit Facility (DMADF), Money Market Funds, Enhanced Money Market Funds and Property Funds. These are all considered high quality names – although not always rated).

54. The proposed criteria for Specified and Non-Specified investments are shown in Annex A for approval.

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

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

Investment Strategy

57. Investments will be made with reference to cash flow requirements and the outlook for interest rates up to 3 years.

58. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

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

- 2016/17 0.90%
- 2017/18 1.50%
- 2018/19 2.00%
- 2019/20 2.25%
- 2020/21 2.50%
- 2021/22 3.00%
- 2022/23 3.00%
- Later years 3.00%

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

Investment treasury indicator and limit

61. This sets a limit on the total principal invested for periods greater than 364 days. The limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

62. The Council is asked to approve the following treasury indicator and limit:

Maximum principal sums invested > 364 days	2016/17	2017/18	2018/19
	£m	£m	£m
Principal sums invested > 364 days	60	60	60

63. For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Performance Indicators

64. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

65. The following indicators will be reported in the annual report on treasury management activity for 2016/17:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

66. The Council uses Capita Asset Services as its treasury management consultants. The company provides credit ratings and a market information service comprising the three main credit rating agencies. A three year contract with Capita Asset Services commenced on 1st January 2013 and has been extended for a further year.

67. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council.

Member and Officer Training

68. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This important issue has been addressed by providing regular updates and reports on the treasury management function to the Council's Audit Committee. Officer training is provided by Capita Asset Services, the Council's advisers, who organise regular seminars and also produce regular newsletters and papers on treasury management issues.

Management Structure

69. The management arrangements for dealing with Treasury Management (Treasury Management Practice Note 5) have been revised following the retirement of the Financial Planning and Audit Manager. These are shown, for information at Annex B.

TREASURY MANAGEMENT PRACTICE (TMP1)

Credit and Counterparty Risk Management

The Department of Communities and Local Government issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires the Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 6th March 2002 and will apply its principles to all investment activity. In accordance with the Code, the Deputy Chief Executive has produced its treasury management practices (TMP's). This part, TMP1, covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, the credit ratings to be used have to be determined by the Council as no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is as follows:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

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

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity): unlimited
2. Supranational bonds of less than one year's duration: limit £0
3. A local authority, Police and Crime Commissioner or fire authority: limit £10m each
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating (AAA) by a credit rating agency: limit £5m each.
5. A body that is considered a high credit quality (such as a bank or building society).

Category 4 covers investments in money market funds and enhanced money market funds. These are rated AAA by the rating agencies (the highest security rating possible). The Council had approved the use of one fund, Standard Life, but in recent times investment returns from money market funds in general has been poor and consequently our account with Standard Life has been closed. Investment returns from money market funds have now improved and it is recommended that they are now used with a maximum limit of £5m with each fund.

Category 5 covers bodies with a minimum rating of F2/P2/A-2 as rated by Fitch, Moody's and Standard & Poors. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

<table>
<tr><th></th><th>Fitch</th><th>Moody's</th><th>Standard & Poor's</th><th>Money Limit</th><th>Time Limit</th></tr>
<tr><td rowspan="2">Middle Limit Category</td><td rowspan="2">F2</td><td rowspan="2">P2</td><td rowspan="2">A-2</td><td>£20m</td><td>Up to and including 364 days</td></tr>
<tr><td colspan="2">In addition, up to a further £20m can be invested in each bank that operates call accounts that can be withdrawn within 24 hours notice.</td></tr>
</table>

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

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£0 £0
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£0
c.	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£20m
d.	Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match	£7m each

	similarly sized societies with ratings. The council may use such building societies which have the following criteria:- Building Societies with an asset base in excess of £2 billion (restricted to up to and including 364 days)	
e.	Any bank or building society that has the following rating: Upper Limit Category (restricted to 1-3 years) for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment). In addition, up to a further £20m can be invested in each bank that operates call accounts that can be withdrawn with up to 24 hours notice.	£30m each up to an additional £20m
f.	Any non-rated subsidiary of a credit rated institution included in the specified investment category.	£0
g.	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	£0
h.	**Pooled property or bond funds.** The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application of capital resources.	£10m

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from its advisers, Capita Asset Services, as and when ratings change, and, counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Deputy Chief Executive, and if required new counterparties which meet the criteria will be added to the list.

Annex B

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

INDEX OF SCHEDULES

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/EXECUTIVE LEVELS

5.1.1 Delegation of Powers

a) Council
- The limits required by Housing & Finance Act 1989
- Approval of Treasury Management Policy Statement
- Approval of Treasury Management Strategy
- Approval of Annual Report
- The Cabinet recommend to Council the above

b) Cabinet
- Division of responsibilities

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The Deputy Chief Executive will ensure there is always adequate segregation of duties in all transactions, with a minimum of 2 officers required to make payments, and Senior Finance Managers or the Procurement and Governance Manager to release authorised payments.

5.3 TREASURY MANAGEMENT ORGANISATION CHART

Deputy Chief Executive
Director of Finance and Business Services
Assistant Director (Business Support and Information)
Senior Finance Managers and Procurement and Governance Manager
Finance Manager – Corporate (Chief Accountant)
Senior Finance Technician (Treasury Management)

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1 Deputy Chief Executive

1. The Deputy Chief Executive will:

   a) Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
   b) Submit reports as and when required by Council
   c) Authorise and maintain TMPs and Schedules
   d) Set submit and monitor budgets
   e) Review the performance of the treasury management function and promote best value reviews
   f) Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function
   g) Ensure the adequacy of internal audit and liaise with external audit
   h) Recommend the appointment of external service providers where appropriate
   i) Authorise treasury payments

2. The Deputy Chief Executive has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

3. The Deputy Chief Executive may delegate her power to borrow and invest to members of her staff to conduct all dealing transactions. All transactions must be authorised by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Director of Finance and Business Services & Assistant Director (Business Support and Information)

1. Close investment deals
2. Authorise treasury payments

5.4.3 Senior Finance Managers & Procurement and Governance Manager

1. Release authorised bank payments

5.4.4 Finance Manager – Corporate (Chief Accountant)

The treasury responsibilities of this post will be:

- To assist Deputy Chief Executive/Director of Finance and Business Services in the formation of the Treasury Strategy.
- Identify and recommend opportunities for improved practices
- Supervise Treasury Management staff
- Monitor performance
- Review the performance of treasury management functions and promote best value reviews
- Implement Treasury Management Strategy
- Close investment deals
- Check interest calculations
- Arrange rescheduling or premature repayment of existing borrowings.

5.4.5 Senior Finance Technician

Responsibilities:

- Calculate daily cash balances
- Enter transmission of monies via Nat West Web Banking system
- Select Brokers from approved list
- Adhere to agreed policies and practices on a day to day basis
- Submit management information reports
- Maintain cash flow projections
- Third party loan confirmation
- Ensure counter party limits are not exceeded
- Ensure there is a clear segregation between officers for negotiating/ approving and closing deals.

5.5 <u>ABSENCE COVER ARRANGEMENTS</u>

The authority will ensure that there is adequate cover for all absences.

5.6 <u>DEALING LIMITS</u>

Dealings can be carried out providing that transactions are within limits determined by the council and the Deputy Chief Executive.

5.7 LIST OF APPROVED BROKERS

Prebon Brokers (UK) plc
Sterling International Brokers Ltd
Garbon Intercapital Brokers Ltd
Tradition Brokers
Martin Brokers
MPC Treasury Services

5.8 POLICY ON BROKERS' SERVICES

The authority will use brokers for its temporary transactions when appropriate. The Finance Manager – Corporate (Chief Accountant) will evaluate the services provided by Brokers.

5.9 POLICY ON TAPING OF CONVERSATIONS

The authority will not tape telephone conversations

5.10 DIRECT DEALING PRACTICES

All deals are carried out with brokers with the exception of Bank of England and major UK banks.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Nat West Web Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and card operated pin number. A manual back up facility will be in place to cover system failure.

5.12 DOCUMENTATION REQUIREMENTS

Cash Dealing sheet
Cashflow summary
Loan Record
Dealing sheet
Brokers confirmation
Counter party confirmation
Invoice signed/coded to budget
Nat West Bankline confirmation sheet

Annex C

Debt Outstanding at 31 March 2016

Loan	Lender	Start	Maturity	Interest	Outstanding Debt
12 months and under					
467058	PWLB	10-Jul-1989	31-Jul-2016	9.625	142,107.88
471705	PWLB	01-Jan-2004	30-Sep-2016	9.875	4,809.01
471706	PWLB	01-Jan-2004	30-Sep-2016	9.875	9,885.19
466493	PWLB	01-Jan-2004	31-Mar-2017	9.25	16,030.04
					172,832.12
1 year to 5 years					
480866	PWLB	01-Jan-2004	30-Jun-2017	5.75	26,716.74
463966	PWLB	08-Feb-1988	31-Jan-2018	9.5	213,161.82
464618	PWLB	01-Jan-2004	31-Mar-2018	9.25	26,716.74
467059	PWLB	10-Jul-1989	31-Jul-2018	9.625	142,107.88
467066	PWLB	01-Jan-2004	31-Mar-2019	9.625	14,138.05
467574	PWLB	10-Oct-1989	31-Jul-2019	9.75	71,053.94
-	Scottish Provident	04-Feb-1986	04-Feb-2021	11.5	2,000,000.00
467526	PWLB	01-Jan-2004	31-Mar-2021	9.75	8,492.19
					2,502,387.36
5 years to 10 years					
484303	PWLB	01-Jan-2004	30-Jun-2021	5.75	683.45
479996	PWLB	01-Jan-2004	31-Dec-2021	6.375	16,030.04
479482	PWLB	01-Jan-2004	30-Jun-2022	7.125	26,716.74
-	Barclays	01-Jan-2004	03-Nov-2022	8.99	4,000,000.00
480389	PWLB	01-Jan-2004	31-Mar-2025	6.25	16,030.04
					4,059,460.27
10 years and above					
-	Depfa	26-Jun-2001	26-Jun-2026	5.03	5,000,000.00
478327	PWLB	01-Jan-2004	31-Dec-2026	7.875	26,716.74
486677	PWLB	01-Jan-2004	31-Dec-2026	5.25	16,030.04
465102	PWLB	18-Aug-1988	31-Jul-2028	9.375	177,634.85
473557	PWLB	01-Jan-2004	30-Sep-2028	7.875	10,686.70
481266	PWLB	01-Jan-2004	31-Dec-2028	5.375	16,030.04
402348	PWLB	15-Sep-1969	31-Jul-2029	9.375	473.44
402349	PWLB	15-Sep-1969	31-Jul-2029	9.375	289.51
466016	PWLB	24-Jan-1989	31-Jul-2033	9.25	39,696.96
-	Dexia	17-Jul-2002	17-Jul-2042	4.7	5,000,000.00
-	Dexia	12-Dec-2005	12-Dec-2042	4.875	6,000,000.00
491100	PWLB	23-Jan-2006	31-Mar-2051	3.7	284,215.76
491979	PWLB	24-Aug-2006	31-Jan-2052	4.25	177,634.85
491981	PWLB	24-Aug-2006	31-Mar-2052	4.25	177,634.85
491982	PWLB	24-Aug-2006	30-Sep-2052	4.25	177,634.85
493326	PWLB	30-May-2007	31-Mar-2053	4.6	177,634.85
492196	PWLB	28-Sep-2006	30-Sep-2053	4.05	106,580.91
493327	PWLB	30-May-2007	30-Sep-2053	4.6	177,634.85
492197	PWLB	28-Sep-2006	31-Mar-2054	4.05	106,580.91
493328	PWLB	30-May-2007	31-Mar-2054	4.6	177,634.85
493329	PWLB	30-May-2007	30-Sep-2054	4.6	177,634.85
493330	PWLB	30-May-2007	31-Mar-2055	4.6	177,634.85
492919	PWLB	15-Feb-2007	30-Sep-2055	4.4	177,634.85
492920	PWLB	15-Feb-2007	30-Sep-2055	4.4	177,634.85

493331	PWLB	30-May-2007	30-Sep-2055	4.6	177,634.85
492921	PWLB	15-Feb-2007	31-Mar-2056	4.4	177,634.85
492922	PWLB	15-Feb-2007	31-Mar-2056	4.4	177,634.85
493332	PWLB	30-May-2007	31-Mar-2056	4.6	172,424.39
492923	PWLB	15-Feb-2007	30-Sep-2056	4.4	177,634.85
492924	PWLB	15-Feb-2007	30-Sep-2056	4.4	177,634.85
492925	PWLB	15-Feb-2007	31-Jan-2057	4.4	177,634.85
492926	PWLB	15-Feb-2007	31-Jan-2057	4.4	177,634.85
494748	PWLB	15-Aug-2008	31-Mar-2058	4.39	142,107.88
-	Depfa	06-Mar-2007	07-Mar-2077	4.81	6,000,000.00
-	Depfa	06-Mar-2007	07-Mar-2077	4.71	15,000,000.00
					41,119,260.58
	Grand Total				**47,853,940.33**

Annex D

INVESTMENT COUNTERPARTY LIMITS

COUNTERPARTY	Money £m	Time	Bank Call Accounts Returned within 24hrs £m
Bank of England (guaranteed by HM Government equivalent to a sovereign triple A rating)			
Debt Management Account Deposit Facility	unlimited	unlimited	unlimited
UPPER LIMIT/LONG TERM			
Clearing Banks with at least AA- Fitch, Aa3 Moody's or AA- S & P Rating			
HSBC Group	30	3 years	20
Svenska Handelsbanken	30	3 years	20
National Australia Bank Group	30	3 years	20
European Investment Bank	30	3 years	20
MIDDLE LIMIT/SHORT TERM			
Clearing Banks with at least F2 Fitch, P2 Moody's or A-2 S & P Rating			
Barclays Bank	20	364 days	20
Close Brothers Ltd	20	364 days	20
Clydesdale Bank (part of National Australia Group)	20	364 days	20
Goldman Sachs International Bank	20	364 days	20
Lloyds Banking Group	20	364 days	20
Virgin Money	20	364 days	20
RBS Group	20	2 years	20
Santander UK Group	20	364 days	20
Clearing Building Societies with at least F2 Fitch, P2 Moody's or A-2 S & P Rating			
Coventry	15	364 days	
Leeds	15	364 days	
Nationwide	15	364 days	
Nottingham	15	364 days	
Yorkshire	15	364 days	
LOWER LIMIT			
Building Societies with an asset base of £2 billion +			
Newcastle	7	364 days	
Principality	7	364 days	
Skipton	7	364 days	
West Bromwich	7	364 days	
Local Authorities, Police & Crime Commissioners, Fire Authorities	10	3 years	
Money Market Funds	5	364 days	
Enhanced Money Market Funds	5	364 days	

Appendix G

RESERVES POLICY

LEGAL CONTEXT

The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- the balanced budget requirement:

- England, sections 31A, 42A of the Local Government Finance Act 1992, as amended

- chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales)

- the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer has responsibility for the administration of those affairs section 151 of the Local Government Act 1972

- the requirements of the Prudential Code.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief finance officer in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget.

In Stockton-On-Tees Borough Council the role of chief financial officer is held by the Deputy Chief Executive.

TYPES OF RESERVES

Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general fund balance and is held as a general reserve;

- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of the general fund balance;

- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

ESTABLISHMENT OF EARMARKED RESERVES

For each reserve established, the purpose, usage and basis of transactions should be clearly identified. Usage of reserves is to be undertaken in accordance with the budget framework approved by full Council in the Medium Term Financial Plan.

To establish a reserve the Deputy Chief Executive must be satisfied that:

- the purpose or reason for the reserve is appropriate
- clear arrangements for its use have been established
- that the reserve is compliant with the Code of Practice on Local Authority Accounting in the United Kingdom

MANAGEMENT AND CONTROL OF RESERVES

The Deputy Chief Executive shall be responsible for the management and control of reserves. In carrying out this responsibility, the Deputy Chief Executive shall undertake:

- An annual review of the relevance and adequacy of reserves, as part of the final Medium Term Financial Plan Update and Strategy.
- Periodic budget monitoring of the Council's overall revenue position to assess the potential extent of the use of general reserves in any year.
- A year end assessment of the potential use of reserves in order to optimise the Council's financial position, with any such use reported to the Audit Committee as part of the report on annual financial statements.

It should also be noted that the Council's External Auditor may wish to review the level of reserves at any time, and that the Deputy Chief Executive will take into account any views expressed by the External Auditor on reserves as part of the Medium Term Financial Plan.

PRINCIPLES TO ASSESS THE ADEQUACY OF GENERAL RESERVES

In order to assess the adequacy of general reserves, principally the General Fund Balance, the Deputy Chief Executive shall take account of the strategic, operational and financial risks facing the Council.

Having reviewed the risks facing the Council, the Deputy Chief Executive shall recommend at least annually the level of general reserves (working balances) to be maintained as part of the Medium Term Financial Plan Update. The amount may be stated as an absolute amount or in percentage terms.