CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

21 FEBRUARY 2019

REPORT OF CORPORATE MANAGEMENT TEAM

CABINET / COUNCIL 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 2019/20 Budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2023.

2. Recommendations

COUNCIL DECISIONS

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

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

General Fund Budget

2. Approve a 2019/20 Council Tax requirement for Stockton-on-Tees Borough Council of £89,143,441.

3. Approve a 2019/20 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£870,287) of £90,013,728.

4. Approve the 2019/20 budget and indicative 2019/23 MTFP as outlined in paragraphs 37-39.

5. Approve Prudential Borrowing of £2.5m to fund the additional costs associated with the Globe Theatre, which has previously been agreed in principle by Cabinet.

Business Rate Relief System

6. Note the changes introduced in the Spring and Autumn Budgets of 2017 and 2018.

Taxation

SBC

7. Approve the Council Tax for Stockton-on-Tees Borough Council prior to Parish, Fire and Police Precepts be increased by 2.9% i.e. to £1,588.65 at Band D (£1,059.10 at Band A).

Fire, Police & Parish

8. The Council note the Police precept of £14,058,476 which equates to a Council Tax of £250.54 at Band D (£167.03 at Band A).

9. The Council note the Fire precept of £4,340,878 which equates to a Council Tax of £77.36 at Band D (£51.57 at Band A).

10. The Council note the Parish precepts as set out in paragraph 63 of the budget report.

Capital

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

Organisational and HR

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

Members Allowances

13. Approve that Members allowances are frozen for 2019/20. This will mean that these allowances have been frozen since 2013/14.

Council Tax - Statutory Requirements

14. Members approve the statutory requirements for Council Tax as shown in **Appendix D**.

15. Cabinet recommend to Council that the current Local Council Tax Support Scheme is retained for the financial year 2019/20 (see paragraph 66).

Capital Strategy

16. Approve the Capital Strategy as set out at **Appendix E** to the report.

Treasury Management/Prudential Code

17. Approve the Treasury Management Strategy as set out in **Appendix F** to the report.

Investment Strategy

18. Approve the Investment Strategy as set out at **Appendix G** to the report.

CABINET DECISIONS

19. Cabinet approve and note the Officer Appointments to outside bodies and governing bodies at **Appendix C(2)**.

3. Reasons for the Recommendations/Decisions

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

REPORT TO CABINET

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CABINET / COUNCIL DECISION

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DETAIL

1. The MTFP report for 2019/20 to 2022/23 is attached. The report outlines the Council Tax proposals and Budget for 2019/20 and the indicative MTFP for the next three years.

2. The report updates the position from that reported to Cabinet and Council in February and March 2018 and in particular reflects implications arising from the Autumn Budget 2018 and the Local Government Finance Settlement for 2019/20.

3. The Provisional and Final Financial Settlements have provided funding allocations for 2019/20 only, this being the final year of the four year settlement agreed with MHCLG. They confirm further funding reductions which will make the difficult financial position faced by the Council even more challenging. The report also provides an update on future changes to Local Government Finance. These include the move to retention of a greater proportion of business rates by Local Authorities and the introduction of changes to the funding formulae. These are potentially major changes which are likely to have an impact on future council funding. This means that the position for 2020/21 onwards, outlined in the report, needs to be treated with some caution.

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.

COMMUNITY IMPACT ASSESSMENT

5. As part of the process of making changes to policy or delivery of services, we consider the impact on our communities. No changes to policy or service delivery are proposed as part of this report.

FINANCIAL AND LEGAL IMPLICATIONS

6. To update the MTFP position for 2019/20 – 2022/23 and recommend the budget for 2019/20.

RISK ASSESSMENT

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

COUNCIL PLAN POLICY PRINCIPLES AND PRIORITIES

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

CORPORATE PARENTING IMPLICATIONS

10. No direct implications.

CONSULTATION, INCLUDING WARD COUNCILLORS

11. Consultation will be undertaken as part of the lead in to setting the 2019/20 budget.

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MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2019/20

CONTENTS

SECTION 1 - BACKGROUND AND CONTEXT

Approach to Financial Management

1. Members will be aware from previous reports of the level of Government funding reductions in recent years and the significant challenges that this presents. There has been a reduction in Government funding between 2010/11 and 2019/20 of £73m (approximately 60% in cash terms).

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

3. The Council has a long history of providing value for money and delivering strong financial management which has again been reinforced by the External Auditor in his report to Cabinet in September 2018 which stated:

   "The Council is well aware of the financial challenges it is facing in the future. The MTFP has been refreshed and updated for known pressures, events and assumptions as part of the 2018/19 budget setting process. The Council remain well placed to face these challenges and Officers continue to keep the overall position under close review".

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

4. The approach has meant that savings have been delivered in a planned and managed way. The Council will have delivered savings of around £45m by 2019/20 through various means. The Council has tried to protect front line services wherever possible and significant elements of the programme have been delivered through a series of reviews, freezing budgets, Invest to Save schemes and innovative changes to delivery models, such as the Council's Smarter Working Programme.

SECTION 2 – NATIONAL CHANGES

Government Funding – Autumn Budget

5. The Government announced additional funding for Adult Social Care Winter Pressures for years 2018/19 and 2019/20. For Stockton this amounts to £845,239 for each of the two years. In addition a new Adults and Children Social Care Grant was introduced for 2019/20 only (£1,443,949 for Stockton). Whilst this funding is welcome, it is a one-off without any commitment that it will continue in future years.

Government Funding – Provisional Settlement

6. The Provisional Local Government Finance Settlement was announced on 13 December 2018 and the key issues which impact on the Council's financial position are outlined below.

   New Homes Bonus – the 2019/20 allocations were announced, still based on a need to grow our taxbase above the 0.4% threshold. The position remains uncertain beyond 2019/20.

   Council Tax Referendum Threshold – The Government has maintained the increased referendum limit for Council Tax at 3% for 2019/20. The Government's published data on Core Spending Power assumes a 3% increase in Council Tax. The implications are discussed further in Section 4**.**

Public Health Grant – No significant changes were announced.

Better Care Fund – No significant changes were announced.

Social Care Funding (Adults and Children) – The Provisional Settlement confirmed the Adult Social Care Winter Pressures Funding for 2018/19 and 2019/20 and the Adults and Children's Social Care Grant for 2019/20 previously announced in the Autumn Budget. Despite continued lobbying from within the Local Government Sector around pressures relating to Social Care, again no long term additional funding has been identified by Government to support these services.

Distribution of Business Rates Levy Account Funding – An additional £180m nationally (£599,000 for Stockton) was announced by the Secretary of State. This has been funded from the surplus on the National Business Rates Retention Levy/Safety Net Account. This will be paid in late 2018/19 and utilised to support the MTFP.

Local Government Funding Reform – The Government has published further consultation papers on Fair Funding and on Retention of Business Rates and has confirmed the intention to introduce the changes in 2020/21. The Secretary of State also confirmed that there will be a business rates baseline reset in 2020/21.

Government Funding – Final Settlement

7. On 29 January 2019 the Government presented the Final Local Government Finance Settlement. There were no changes impacting on Stockton from those published in the Provisional Settlement.

SECTION 3 - FINANCIAL POSITION TO 31 DECEMBER 2018

DIRECTORATE POSITION

8. The following table details the projected budget outturn position for each directorate in 2018/19, based on information to 31 December 2018. The reasons for any significant movements in variances from the last reported position (in excess of £100,000) are set out for each directorate below:

Directorate	Annual Budget (Q3) £'000	Projected Outturn at Q3 £'000	Projected Variance at Q3 Over/(Under) £'000	Projected Variance at Q2 Over/(Under) £'000	Movement between Q2 and Q3 £'000
Children's Services	36,927	37,390	463	1,019	(556)
Adults and Health	71,387	70,720	(667)	(100)	(567)
Community Services	32,422	32,300	(122)	(235)	113
Economic Growth & Development	8,013	7,843	(170)	13	(183)
Culture, Leisure and Events	8,476	8,431	(45)	(45)	0
Finance & Business Services	8,146	8,127	(19)	54	(73)
HR, Legal and Communications	4,876	5,181	305	225	80
Corporate Areas	902	943	41	(82)	123
Admin/Democratic Services & Xentrall	7,097	7,027	(70)	(70)	0
Total	**178,246**	**177,962**	**(284)**	**779**	**(1,063)**

Children's Services

9. The report to Cabinet in September 2018 highlighted the range of measures being reviewed and implemented to address pressures in this area. Indications are that these measures are now having a positive impact on the numbers and costs of Looked After Children. The Joint Venture with Spark of Genius is continuing to perform extremely well and this is expected to perform ahead of the Business Case and deliver additional savings of £230,000. This brings the overall savings to approximately £800,000 per annum.

Adults and Health

10. In early October 2018 the Health & Social Care Secretary announced an additional Winter Pressures Grant of £240m nationally in 2018/19 and 2019/20. The share allocated to Stockton is £845,239 per annum. We are already working collaboratively with Health colleagues to consider the impact of winter pressures and to consider areas of investment to manage and prevent pressures on our services and this funding will be used to support this investment.

11. The MTFP for 2018/19 assumed that any growth pressures would be offset by savings and current indications are that growth will be managed within the service. A one-off refund of National Insurance Contributions relating to Direct Payments (£300,000) will contribute to an overall underspend for the Directorate.

Community Services

12. The combination of a number of smaller projected variances has resulted in a movement of £113,000.

Economic Growth and Development

13. Additional income from planning fees (£100,000) and the impact of vacant posts (£65,000) is leading to a projected underspend for the Directorate.

Culture, Leisure and Events

14. No significant variances from the previously reported position.

Finance and Business Services

15. No significant variances overall from the previously reported position.

HR, Legal and Communications

16. No significant variances overall from the previously reported position.

Corporate Areas

17. Additional income relating to the Small Business Rates Threshold changes compensation is projected to be offset by backdated holiday pay payments.

Administration, Democratic Services and Xentrall

18. No significant variances overall from the previously reported position.

OVERALL REVENUE POSITION/GENERAL FUND BALANCES

19. The Council aims to retain General Fund balances at a prudent level, currently £7,400,000. As reported to Cabinet previously, the level of balances including unutilised Managed Surplus, currently exceeds that recommended level by £515,000. This sum is available to support the MTFP as highlighted at paragraph 33. If the underspend of £284,000 outlined at paragraph 8 materialises, this will also be available to support the plan.

SECTION 4 - 2019/20 COUNCIL TAX LEVELS

20. 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.

21. In previous years the Council has made decisions to increase Council Tax as opposed to freezing Council Tax levels. If these decisions had not been taken since 2012/13, the financial pressure facing the Council would be approximately £7m per annum higher than that outlined in this report.

22. As highlighted at paragraph 6, the Government have announced that the Council Tax Referendum Threshold will remain at 3% for 2019/20 and has assumed this level of increase in their spending power calculation. The current MTFP assumes a 2.9% increase in 2019/20. Because there is uncertainty that this increased Referendum limit will be sustained beyond 2019/20 1.9% has been assumed for the remainder of the MTFP.

23. Given the scale of the financial pressures facing the Council over the medium term it is recommended that the Council increase the core Council Tax by 2.9% for 2019/20. The impact of the increase of 2.9% in 2019/20 would be £0.57 per week (Band A) and £0.86 per week (Band D).

24. Members will be aware that in the period 2016/17 to 2018/19 the Council reluctantly implemented the Governments Adult Social Care levy to fund the growing demands and pressures in Social Care. Councils had the option to levy up to 6% over three years. Most chose either 2%,2%,2% or 3%,3% (over the period 2017/18 to 2019/20). Stockton chose the latter and therefore no further levy will be charged in 2019/20.

25. The Local Council Tax Support Scheme was introduced in 2013/14 and it is now timely to review how this is operating and its impact. It is proposed that this be considered for inclusion in the Members Scrutiny Programme.

SECTION 5 – MEDIUM TERM FINANCIAL PLAN 2019-23

Current Approved MTFP

26. The current approved position in March 2018 was as follows:

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Budget Gap	1,476	4,757	3,078

Funding Position

27. Members will recall that the Council are approaching the end of a 4 year financial settlement from the Government which ends in 2019/20 to coincide with the original parliamentary cycle. There are a number of funding streams outside of this settlement, notably New Homes Bonus, Public Health Funding and the Better Care Fund.

28. Funding for Children's and Adults Social Care – A large body of evidence exists highlighting the immediate and long term pressures local authorities are facing in relation to Children's and Adults Social Care. The Budget in Autumn 2018 announced a limited level of funding to fund short term pressures in 2018/19 and 2019/20 but did not address the long term issues.

29. A key issue facing all Local Authorities is the lack of certainty in funding post 2020 and there are a number of key issues which come together at that time to make planning extremely difficult:

- Spending Review – A Spending Review is scheduled for Spring/Summer 2019. This will inform the quantum of resources available to Local Government and to other Government Departments. It is not currently possible to know whether there will be any changes to the quantum level and what this will mean.

- Retention of Business Rates – As reported previously, the Government is now working towards business rates retention at a level of 75%, with a target introduction date of April 2020. Despite a significant amount of national work it is still unclear how this system will work and therefore the impact on Stockton.

- Fair Funding Review – As reported previously, the Government are conducting a review of the formula used to calculate the base level of funding for each Council which is used to redistribute elements of business rates through tariff and top ups. This is an extremely complex area and will result in winners and losers and it is still unclear how this will be introduced. As part of the analysis and lobbying, a paper outlining the impact of funding reductions has been prepared on behalf of the Tees Valley and was presented to Cabinet in December 2018.

The Council will continue to monitor the situation on all these matters extremely closely and participate in working groups and consultation exercises to try and understand the position but all of these things together make planning post 2020 extremely difficult. We do however need to continue to plan ahead and we have rolled forward the plan assuming allocations remain as they are in 2019/20.

National consultations on both Fair Funding and Business Rates Retention were announced in the Provisional Local Government Finance Settlement. The Council will respond to both consultations.

The Government announced as part of the budget additional funding to support Highways work, including that associated with pot holes, Stockton will benefit by £1.1m and plans are being developed on how this will be spent to deliver improvements.

Changes to current expenditure plans

30. There are a number of emerging issues which need to be reflected in the MTFP going forward and these are outlined below:

- Legal Costs – Children's Services – The volume and complexity of Children's Social Care activity is driving increased pressures on budgets for legal support to complex care cases. This will mean a pressure for the duration of the MTFP at a level of £500,000 in 2019/20 with this expected to reduce over the course of the MTFP.

- Adult Social Care savings target - Members will be aware from previous reports that the MTFP incorporates a saving on Adult Social Care Management. The service review has commenced with a reorganisation of senior management and further detailed reviews will be undertaken in the new-year with a focus on delivering the savings required. There will however be a delay in delivering the savings so there will be a pressure of £500,000 in 2019/20.

- Adult Deprivation of Liberties Safeguards (DOLS) – The introduction of this legislation has led to a significant financial impact which has extended beyond that originally anticipated. The pressure is expected to be £400,000 in 2019/20 and despite all best efforts this is expected to remain at £200,000 into the future.

- Members will be aware that the work on the Globe Theatre identified problems that were much worse than expected with unsupported walls, badly compacted drainage systems and weaknesses in the roof structure among some of the issues. A project redesign has found solutions to the problems and has recently been announced that the Theatre will open in spring 2020. There will however be costs of Prudential Borrowing associated with these works of £2.5m which will require an additional £135,000 per year.

- Complementing investment in the Globe, Stockton's Cultural Quarter is experiencing considerable growth with new bars and restaurants supported by the strong music programme in the Georgian Theatre, run by Tees Music Alliance (TMA). TMA are central to efforts to provide support to the local music sector and contribute to capacity building in advance of our bid to secure UK City of Culture status in 2025. To assist TMA in their music development agency role, with a prospect of future matching revenue funding from Arts Council England, there is a need for a further revenue allocation of £60,000 per annum.

- Increases in the cost of energy require to be incorporated into the MTFP.

- Sandgate Shops – longstanding road safety issues continue to have highway network wide implications adjacent to Sandgate Shops due to the parking provision and existing highway layout. £50,000 of funding has been identified to be able to carry out feasibility and implementation of measures to provide additional car parking on the adjacent highway and improve traffic management arrangements to improve road safety.

- Town Centre Support – The Council continues with its commitment to improving all of the Borough's town centres and has recently announced further ambitious plans to take great control of properties within town centres to support their offer for future generations. The Council currently supports businesses within town centres through revenue allocations to provide limited business rate relief and grants for improving property frontages as new businesses move in or expand. It is proposed that a further £120,000 per annum of this revenue support is continued across the MTFP.

- Community Participation Budgets – the current funding of £400,000 per year is due to expire at the end of 2019/20. This funding allows interventions identified by Elected Members on a ward by ward basis that have a community and environmental merit but would not necessarily attract mainstream funding that is over-subscribed, particularly around highways and environmental priorities. It is proposed that this budget is therefore included within the MTFP for a further three years beyond 2019/20 to 2022/2023.

- Alley Gates – over recent years Council was able to complete a successful programme of alley gates which significantly improved the safety and environment for many communities with rear property access. Recent work within the Council's two targeted action areas in the centre of Stockton and north Thornaby have highlighted the need to further invest in the replacement and maintenance of alley gates to ensure they remain fit for purpose going forward. It is therefore proposed to include funding across the medium term financial plan to accelerate some of this work and develop an ongoing maintenance programme.

- Thornaby Town Hall Disabled Access – as part of the Council's continued programme of asset management of public places it has been identified that disabled access to Thornaby Town Hall is not made possible by the layout of the street environment adjacent to it. It is proposed to rectify this at the earliest opportunity with some works external to the building which will facilitate wheelchair access directly into the building at a ground floor level.

31. The changes to current expenditure plans can be summarised as follows:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Legal Costs – Children's Social Care	500	400	300	300
Adult Social Care	500			
Adults DOLS	400	200	200	200
Globe Theatre	68	135	135	135
Tees Music Alliance	60	60	60	60
Energy Costs	250	250	250	250
Feasibility Work Sandgate Shops	50			
Town Centre Business Support	120	120	120	120
Community Participation Budgets		400	400	400
Alleygates	60	10	10	10
Thornaby Town Hall Disabled Access	25			
Minor Savings & Pressures	79	61	32	44
Pressures	**2,112**	**1,636**	**1,507**	**1,519**

Income and Resources

32. There are some areas of additional income which can be brought into the plan.

- Business Rates – When the rate of inflation, as measured by RPI, exceeds that of CPI (September) the Council is currently compensated for the difference in terms of its impact on Business Rates income. This will be received in the form of a Section 31 grant.

- Distribution of Business Rates Levy Account Funding – As highlighted in paragraph 6, a sum of £599,000 will be received in late 2018/19. It is recommended that this be carried forward to support the MTFP in 2020/21.

- New Homes Bonus – In the long term the Government has indicated that it will review how New Homes Bonus operates. In the short term, the Council will receive additional income in 2019/20 relating to the level of new homes in 2018/19.

- Adult and Children's Social Care Grant – The Chancellor announced in the 2018 Budget a new grant for Adults and Children's Social Care for one year only (2019/20). The allocation to Stockton is £1,443,949. It is proposed that this grant be utilised to offset the 2019/20 pressures in Children's and Adults Social Care set out in paragraph 30 above.

33. The unallocated excess General Fund Balances (paragraph 19) are available to support the MTFP in 2019/20.

34. Review of Reserves – The Council keeps the level of its financial reserves under regular review.

    a) Fleet Renewal Fund (£0.9m). The Council sets aside a sum each year to fund future fleet vehicle replacements. The level of funding in the reserve has been re-assessed and now exceeds projected future requirements, meaning that there is a reduced requirement to fund the reserve in the short term. A total of £0.9m can be freed up to support the MTFP.

    b) A review of grant income received but not spent, which is currently held in reserves, has identified an element with no current commitments identified (£0.438m).

    This will be added to those identified previously which will mean that there is £3.2m to support the MTFP.

35. Council Tax - The current plan assumes a Council Tax increase of 2.9% in 2019/20. Members are reminded that any change in the level of council tax will impact on the previously approved position i.e. 1% represents approximately £0.8m.

36. This would mean that the resources outlined below are available:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Council Taxbase changes	(254)	(308)	(364)	(381)
Business Rates changes	(657)	(505)	(515)	(526)
Business Rates Levy surplus refund 18/19	(53)	(546)		
New Homes Bonus	(665)			
Adults and Children's Social Care Grant	(1,444)			
Excess Revenue Balances & Unused MS	(515)			
Review of Reserves		(1,338)		
Total	**(3,588)**	**(2,697)**	**(879)**	**(907)**

Summary Position

37. A summary of the budget position is outlined below:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Approved Budget Position	1,476	4,757	3,078	3,217
Pressures	2,112	1,636	1,507	1,519
Income and Resources	(3,588)	(2,697)	(879)	(907)
Budget Gap	0	3,695	3,706	3,828

This shows that a balanced budget can be achieved in 2019/20. There remains a pressure of £3.7m in 2020/21, £3.7m in 2021/22 and £3.8m in 2022/23.

38. Paragraphs 27-29 have identified the significant level of uncertainty around funding from 2020 onwards and any long term plans on further reductions could change significantly following further clarity on these issues. Once there is further clarity around the funding position, we will revise the plan for future years and report back to Cabinet and Council. In the meantime we will continue to explore funding opportunities and options to address the 2020/21 position.

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

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Income				
RSG	(4,995)	(4,299)	(3,511)	(2,708)
NNDR (incl s31 grants)	(45,064)	(46,138)	(46,388)	(47,302)
New Homes Bonus	(3,001)	(2,085)	(2,328)	(2,225)
Better Care Fund (incl Pooled Budget)	(15,045)	(14,602)	(14,602)	(13,852)
Public Health	(13,544)	(13,544)	(13,544)	(13,544)
Council Tax	(89,143)	(91,954)	(94,760)	(97,600)
Additional Income				
Adult & Children's Social Care Grant	(1,444)			
Excess Revenue Balances & Unused MS	(515)			
Release Of Reserves	(1,900)	(1,338)		
Approved Carry Forward from 2018-19	(2,142)			
Total Income	**(176,793)**	**(173,960)**	**(175,133)**	**(177,231)**
Expenditure				
Children's Services	36,885	35,648	34,417	34,417
Adults & Health	73,722	75,291	75,291	75,291
Community Services	28,164	28,084	28,044	28,044
Economic Growth & Development	8,186	8,511	8,511	8,511
Culture, Leisure & Events	8,471	8,281	8,231	8,231
Finance & Business Services	8,235	8,335	8,335	8,335
HR, Legal & Communications	4,967	4,767	4,667	4,667
Corporate Areas incl Pay Award Provision from 20/21	596	1,616	3,721	5,911
Admin, Democratic Services & Xentrall	7,567	7,122	7,622	7,652
Total Expenditure	**176,793**	**177,655**	**178,839**	**181,059**
Revised Budget Position	**0**	**3,695**	**3,706**	**3,828**

SECTION 6 – CAPITAL PROGRAMME

40. The current Capital Programme as at 31 December 2018 which includes Housing and Town Centre schemes, School Capital, Transport, Ingleby Barwick Leisure Facility, is shown at **Appendix A** and summarised below:

CAPITAL PROGRAMME up to 2021	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
Schools Capital	50,347	141	50,488
Housing Regeneration & Town Centres Schemes	42,807	32,506	75,313
Transportation	12,305	756	13,060
Other Schemes	28,294	302	28,596
Total Approved Capital MTFP	**133,753**	**33,705**	**167,457**

Reasons for Movements over £100,000

New Schemes

Two new Section 278 schemes funded by developer contributions, have been added to the plan (£471,000).

Additional Funding

Following the Autumn Budget announcement a further £168,978 2018/19 DFG funding has been added to the capital programme.

On 12 December Cabinet/Council approved £30,000,000 prudential borrowing to fund town centre related developments and acquisitions.

As per the 12 December Cabinet report £2,500,000 has been drawn down from funds allocated in February 2017 MTFP to support the demolition of the former Glam nightclub and Post Office Building.

41. The updated Capital Programme 2012 – 2021 is attached at **Appendix B**.

SECTION 7 - BUSINESS RATE RELIEF SCHEME

42. The 2017 Spring Budget introduced some additional changes regarding business rates relief schemes arising from the 2017 business rates revaluation, which included:

- The supporting small businesses scheme introduced from April 2017, for those ratepayers facing large increases due to the loss of small business or rural rate relief, as a result of the revaluation.

- The local discretionary revaluation relief scheme introduced from April 2017, for those ratepayers facing large increases as a result of the revaluation. Funding of £241,000 was awarded in 2017/18 and expenditure regarding the funding of £117,000 allocated for 2018/19 is on target. For 2019/20 further funding of £48,000 has been approved and a revised scheme is currently being developed.

In the 2018 Spring and Autumn budgets, further changes to the business rates relief schemes were introduced including:

- The introduction of a new retail relief scheme from 1 April 2019 for retail properties with a rateable value of below £51,000. Under the scheme, eligible ratepayers will receive a one third discount of their daily chargeable amount. The definition of retail properties is very similar to that specified in the retail relief scheme in 2015. The relief will have effect for 2019/20 and 2020/21 and should be applied when the annual bills are issued. State aid rules will apply to the retail relief in the normal way.

The Pub Relief Scheme introduced in 2017/18 and extended to 2018/19 providing a discount of up to £1,000 for eligible pubs, has not been extended further and will therefore no longer apply after 31 March 2019.

These changes are reflected in the Council's discretionary rate relief policy and the Government will compensate the Council for the loss of income it suffers as a result of the changes.

SECTION 8 – PAY POLICY AND MEMBERS ALLOWANCES

NJC Pay Award 2019

43. The Council has agreed a new pay spine with the Trade Unions which is to be implemented from 1 April 2019. This delivers the second year of the 2-year nationally negotiated pay award.

44. The NJC review of the "Green Book" pay spine has been under national development for some time. The new spine and technical guidance on assimilation were received in June 2018. Since then we have been developing an approach to assimilate the new pay spine to the Council's grading structure.

45. In developing the new grading structure consideration has been given to the following aims and objectives:

    a. To ensure the proposal does not have any equal pay implications
    b. To maintain the Council's current job evaluation and differentials in the current grading structure as far as possible
    c. To remove overlapping grades in the current grading structure which have caused some confusion
    d. To ensure incremental progression within a grade is appropriate
    e. To support the Council's commitment to move towards paying the Foundation Living Wage and to The Great Jobs Agenda.
    f. To deliver a proposal which does not detriment any part of the Council's workforce
    g. To deliver a proposal which is affordable and within the Council's Medium Term Financial Plan.

46. The new grading structure begins at scp 3 (formerly scp 10) Grade C, this will be **£9.36 per hour from 1 April 2019**. This is well above the current National Living Wage which will be £8.21 per hour from 1 April 2019 and above the Foundation ("Real") Living Wage which was increased to £9 per hour on 5 November 2018. There are currently 655 Council employees who earn less than the Foundation Living Wage (on former scp 10,11 and 12) who will move to an hourly rate above the Foundation Living Wage on 1 April 2019.

47. The introduction of the new pay spine achieves the Council's stated objective of moving towards paying the Foundation Living Wage for Council employees and represents a significant percentage rise across the lower scps. This is in keeping with the recent Council commitment to The Great Jobs Agenda.

48. The new pay and grading structure is included in the Pay Policy Statement 2019/20 at **Appendix C(1)**.

Apprentices

49. The Council continues to pay its apprentices the national minimum wage for age (starting at £4.20 per hour for 16 – 18 year olds increasing to £4.35 per hour from 1st April 2019) rather than the national apprentice rate of £3.70 per hour (£3.90 per hour from 1st April 2019).

Pay Policy Statement

50. The Council's Pay Policy Statement is at **Appendix C**. The Council's median hourly rate and pay multiple, both calculated as at 31st December 2018 is as follows:

    - Median Hourly rate is £11.61 (£11.02 at 31st December 2017); and
    - Pay multiple is 7.67 (7.93 at 31st December 2017).

    Both the median hourly rate and pay multiple have positively changed predominantly due to the bottom loading of the 2018 pay award. In particular the pay multiple is well under the Council's target of 10. It is anticipated that both the median and pay multiple will continue to improve with the introduction of the Council's new pay and grading structure and in line with the Council's commitment to the Real Living Wage and Great Jobs Agenda.

Headcount and FTE

51. Overall the workforce headcount and FTE has slightly increased but this is predominantly due to increases in front-line services. It is recognised that although further financial savings are required, we are unable to continue to achieve savings through staffing levels alone without an impact on service delivery. The Council are therefore looking at other measures to achieve the savings, such as through the SWiS Programme and Lean Reviews, and changing the model of service delivery for example within Adults & Children's Services focusing on Early Intervention and proactive measures to reduce demand on services and improve the support for the residents of the borough.

Headcount and FTE as at 31 December 2018 compared to 31st March 2016, 2017 & 2018 is:

	31 Dec 2018	31 March 2018	31 March 2017	31 March 2016
Headcount	3195	3095	3183	3301
FTE	2498	2414	2458	2550

52. Notwithstanding the slight increase in Headcount and FTE the changes that have been needed to meet the MTFP challenge have had a significant impact on our employees. Overall there has been a reduction in the headcount of the workforce over the last 8 years. The headcount has reduced by 1,065 (25%) from 4,260 as at 31st March 2011 to 3,195 as at 31st December 2018. Total FTE has reduced by 644 (20.5%) from 3,142 as at 31 March 2011 to 2,498 at 31 December 2018.

53. 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.

54. 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 on the financial situation and provide opportunities for employees to put forward ideas and suggestions. We will also seek to ensure that a package of employee support and targeted training is available to all employees at risk of redundancy and that employees are supported through change.

Officer Appointments To Outside Bodies And Governing Bodies

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

56. Attached at **Appendix C(2)** is a list of appointments that have been made to external bodies where officers are acting in a Local Authority capacity. It is intended that this list is kept updated and reported to Cabinet annually as part of the MTFP reporting process.

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

58. It is recommended that:

- Council approve the Pay Policy Statement including the new pay and grading structure at **Appendix C and C(1)**.

- Cabinet approve and note the Officer Appointments to Outside bodies and governing bodies at **Appendix C(2)**.

Members Allowances

59. Members will be aware that allowances have been frozen since 2013/14 and it is proposed that this continues for 2019/20 to support the Council's difficult financial position.

SECTION 9 – PRECEPT LEVELS

Stockton Precept

60. Stockton's current tax level for 2018/19 at Band A (the biggest percentage of its properties) is £1,029.26 (£19.74 per week).

	Band A £	Band D £
2018/19	1,029.26	1,543.88
2019/20	1,059.10	1,588.65

Police Precept

61. The Police & Crime Commissioner has indicated a Council Tax Increase of £24.00 at Band D.

	Band A £	Band D £
2018/19	151.03	226.54
2019/20	167.03	250.54

Fire Authority

62. A report to the Fire Authority on 15 February 2019 outlines a proposed Council Tax increase of 2.9%.

	Band A £	Band D £
2018/19	50.12	75.18
2019/20	51.57	77.36

Parishes

63. Details of the Parish precepts are given below:

Parish	2018/19 Precept £	2019/20 Precept £	Precept Increase/ Decrease £	Precept Increase/ Decrease %	Band D Increase/ Decrease %	LCTS Grant Both Years £	2019/20 TOTAL £
Aislaby & Newsham	0	0	0	0.00%	0.00%	0	0
Carlton	4,498	5,000	502	11.16%	-3.28%	22	5,022
Castlelevington / Kirklevington	13,500	13,500	0	0.00%	-14.53%	348	13,848
Egglescliffe & Eaglescliffe	71,736	56,477	(15,259)	-21.27%	-24.21%	5,446	61,923
Elton	0	0	0	0.00%	0.00%	0	0
Grindon	34,000	0	(34,000)			0	0
Wynyard	0	25,604	25,604			0	25,604
Grindon & Thorpe Thewles	0	9,518	9,518			0	9,518
Hilton	2,241	2,311	70	3.12%	2.34%	129	2,440
Ingleby Barwick	155,900	180,300	24,400	15.65%	13.65%	3,445	183,745
Long Newton	11,764	11,764	0	0.00%	0.35%	236	12,000
Maltby	3,504	3,504	0	0.00%	-0.76%	138	3,642
Preston	5,029	5,029	0	0.00%	-1.53%	471	5,500
Redmarshall	3,500	3,900	400	11.43%	12.99%	118	4,018
Stillington & Whitton	8,757	8,957	200	2.28%	-0.96%	1,243	10,200
Thornaby	142,510	146,771	4,261	2.99%	0.59%	36,050	182,821
Wolviston	11,752	12,371	619	5.27%	6.77%	533	12,904
Yarm	118,057	124,358	6,301	5.34%	3.19%	6,141	130,499
Billingham	244,758	260,923	16,165	6.60%	6.81%	23,509	284,432
Total	**831,506**	**870,287**	**38,781**	**4.66%**	**7.53%**	**77,829**	**948,116**

Overall Tax Position

64. 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 £89,143,441 is given below:

Tax 2019/20			
	Current 2018/19 (Band A) £	Proposed 2019/20 (Band A) £	Increase %
Police	151.03	167.03	10.59
Fire	50.12	51.57	2.90
Stockton BC	1,029.26	1,059.10	2.90

Formal Tax Recommendations

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

Local Council Tax Support Scheme

66. The Local Government Finance Act imposed a duty upon local councils from 2013/14 to adopt a Local Council Tax Support Scheme (LCTSS) to replace Council Tax Benefit. Members considered a number of options for Stockton's scheme and following public consultation agreed on the "shared reduction" option, with all working age claimants paying a minimum contribution of 20% of the Council Tax charge. Cabinet are asked to recommend to Council that the existing LCTSS is retained for the financial year 2019/20 whilst a review of the scheme takes place. Any future scheme review will require full consultation with the public.

SECTION 10 – CAPITAL STRATEGY

67. The Capital Strategy required to be approved under the relevant code is attached at **Appendix E**.

SECTION 11 - TREASURY MANAGEMENT STRATEGY

68. The Council's Treasury Management Strategy required to be approved is shown at **Appendix F**.

SECTION 12 – INVESTMENT STRATEGY

69. The Investment Strategy required to be approved by statutory guidance is attached at **Appendix G**.

Capital Programme – December 2018

CAPITAL PROGRAMME Up to 2021	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure April 2013 - December 2018
SCHOOL CAPITAL				
School Investment Programme	50,346,646	141,471	50,488,117	8,802,037
SCHOOLS CAPITAL	**50,346,646**	**141,471**	**50,488,117**	**8,802,037**
HOUSING REGENERATION & TOWN CENTRES SCHEMES				
Housing Regeneration	2,817,058	6,203	2,823,261	179,985
Stockton Town Centre Schemes	35,863,317	0	35,863,317	19,294,867
Reshaping Town Centres	0	30,000,000	30,000,000	7,092
Infrastructure Enhancements & Property Acquisitions	4,126,275	2,500,000	6,626,275	3,042,119
HOUSING REGENERATION & TOWN CENTRES SCHEMES	**42,806,650**	**32,506,203**	**75,312,853**	**22,524,063**
TRANSPORTATION				
Local Transport Plans	8,731,614	164,108	8,895,722	3,994,912
Other Transport Schemes	2,037,092	61,404	2,098,496	1,467,550
Developer Agreements	1,535,812	530,155	2,065,967	1,677,927
TRANSPORTATION	**12,304,518**	**755,667**	**13,060,185**	**7,140,389**
OTHER SCHEMES				
Private Sector Housing	2,195,120	194,785	2,389,905	1,230,463
Building Management & Asset Review	794,051	0	794,051	417,509
Parks, Museums & Cemeteries	8,287,944	106,739	8,394,683	3,326,146
Energy Efficiency Schemes	340,000	0	340,000	0
Leisure Facility Ingleby Barwick	13,300,000	0	13,300,000	1,700,173
Other Schemes	3,377,159	0	3,377,159	1,115,541
OTHER SCHEMES	**28,294,274**	**301,524**	**28,595,798**	**7,789,832**
Total Approved Capital MTFP	**133,752,088**	**33,704,865**	**167,456,953**	**46,256,321**

Appendix B

Capital Programme

CAPITAL PROGRAMME	Current Approved Programme	New Approvals (Part of Report)	Total
SCHOOL CAPITAL			
School Investment Programme			
Planned Maintenance	4,147,946		4,147,946
Rosebrook School	1,000		1,000
30hr Nursery Provision	779,275		779,275
Early Years Provision	881,378		881,378
Healthy Pupils Capital Fund	134,667		134,667
Secondary School Expansions	13,937,845		13,937,845
SEND Provision	2,763,610		2,763,610
Basic Need Capital Funding	27,842,396		27,842,396
	50,488,117	**0**	**50,488,117**
HOUSING REGENERATION & TOWN CENTRES SCHEMES			
Housing Regeneration			
Victoria Estate Regeneration	1,329,694		1,329,694
Elm House Demolition	583,567		583,567
Affordable Housing	910,000		910,000
	2,823,261	**0**	**2,823,261**
Stockton Town Centre			
Stockton Town Centre - Infrastructure Projects	447,117		447,117
TH Match Funding	624,200		624,200
Globe Theatre Refurbishment	17,792,000	2,500,000	20,292,000
Northshore Hotel	17,000,000		17,000,000
	35,863,317	**2,500,000**	**38,363,317**
Reshaping Town Centres			
Town Centre Developments	30,000,000	0	30,000,000
	30,000,000	**0**	**30,000,000**
Other Regeneration Schemes			
Estate Shops	171,275		171,275
Infrastructure Enhancements & Property Acquisition	3,955,000		3,955,000
Glam Post Office Demolition	2,500,000	0	2,500,000
	6,626,275	**0**	**6,626,275**
TRANSPORTATION			
LTP - Integrated Transport	2,131,068		2,131,068
LTP - Structural Maintenance	6,764,654		6,764,654
Preston Park Additional Car Parking	158,195		158,195
NPIF 2017-18 - A689 Wolviston and Wynyard Ave	1,377,158		1,377,158
TVCA A689 Wynyard Feasibilty	216,323		216,323
LGF Schemes	96,820		96,820
Developer Agreements	2,065,967		2,065,967
Event Security	100,000	0	100,000
Sandgate Shops	50,000		50,000
Eaglescliffe Station Western Access	100,000		100,000
	13,060,185	**0**	**13,060,185**

OTHER SCHEMES			
Private Sector Housing			
Disabled Adaptations	2,136,676		2,136,676
Regional Loan Scheme	253,229		253,229
	2,389,905	**0**	**2,389,905**
Building Management & Asset Review			
Building Maintenance Programme	494,051		494,051
Stockton Town Hall Renovation	200,000	0	200,000
Travellers Site Maintenance	100,000	0	100,000
	794,051	**0**	**794,051**
Parks, Museums & Cemeteries			
Parks Improvement Programme	753,593		753,593
Cemeteries	223,090		223,090
Crematorium & Gardens of Remembrance	7,418,000		7,418,000
	8,394,683	**0**	**8,394,683**
Energy Efficiency Schemes			
District Heating Schemes	340,000		340,000
	340,000	**0**	**340,000**
Other Schemes			
Foster Care Adaptations	111,311		111,311
Ware Street Development	766,436		766,436
Independent Living LD Bid	202,000		202,000
Joint Venture Investments	493,077		493,077
School Pitches	128,000		128,000
Vehicle Replacement Fund	1,433,509		1,433,509
Leisure Facility Ingleby Barwick	13,300,000	0	13,300,000
Community Centre Support	50,000		50,000
Halcyon Centre	30,000		30,000
Halidon Way Flood Relief Scheme	51,700		51,700
Rosedale Car Park	111,126		111,126
	16,677,159	**0**	**16,677,159**
Total Approved Capital MTFP	**167,456,953**	**2,500,000**	**169,956,953**

CAPITAL PROGRAMME	**Current Approved Programme**	**New Approvals (Part of Report)**	**TOTAL**
Government Support	66,992,511	0	66,992,511
Earmarked Resources / Receipts	8,918,822	0	8,918,822
Earmarked Housing Regeneration Receipts	175,913	0	175,913
Prudential Borrowing	75,381,185	2,500,000	77,881,185
Other Contributions	3,243,956	0	3,243,956
Corporate One-Off Resources	12,744,567	0	12,744,567
Total Approved Funding Capital MTFP	**167,456,954**	**2,500,000**	**169,956,954**

Appendix C

Stockton on Tees
Borough Council

Pay Policy Statement
2019/20

CONTENTS

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 31 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 Localism Act 2011 does not require the Council to consider individual schools therefore the arrangements set out in this document do not extend to members of staff employed by schools.

1.3 The Council is committed to ensuring fairness, transparency and equality of pay in the remuneration of its employees and will comply with all relevant employment legislation. 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 All of the posts below are collectively referred to as **Chief Officer** and are defined within the Localism Act.

Statutory Chief Officers – which in this authority are:

Head of Paid Service - Chief Executive until 30 April 2019; Interim Managing Director from 1 May 2019.

Monitoring Officer – Director of HR, Legal & Communications.

Section 151 Officer – Deputy Chief Executive until 30 April 2019; Director of Finance & Business Services from 1st May 2019.

Statutory Director of Adult Social Service - Director of Adults & Health.

Statutory Director of Children's Services - Director of Children's Services.

Director of Public Health – Director of Public Health

Non Statutory Chief Officer and Deputy Chief Officers - which in this authority are:

All other Directors and Assistant Directors and as defined in section 2(7) of the Local Government Act 1989.

3. NATIONAL AND OTHER CONDITIONS OF SERVICE

3.1 The appropriate National Conditions of Service are detailed in the table below and are automatically incorporated into employee's contracts of employment.

Negotiating Body	Employees
Joint Negotiating Committee (JNC) for Local Authority Chief Executives	Chief Executive Deputy Chief Executive/Interim Manging Director
Joint Negotiating Committee (JNC) for Chief Officers of Local Authorities	Directors Assistant Directors
The Soulbury Committee	Educational Improvement Professionals Educational Psychologists Virtual School Head Teacher
Conditions of Service for School Teachers in England and Wales	Centrally employed Teachers
National joint Council (NJC) for Local Government Services	All other employees

3.2 For legal and other reasons, some employees are employed on other conditions of service, for example as a result of TUPE transfers into the Council and apprentices.

3.3 The Council's Single Status Agreement which was introduced in 2008 is automatically incorporated into the employment contract of NJC employees, Chief Officers and Soulbury employees.

3.4 The allowances within the Single Status Agreement are updated by either the national pay award or the retail price index. Details are included in the Agreement.

4. PAY STRUCTURE

4.1 The Council has established pay and grading structures, using the national pay spine and National Joint Council Job Evaluation scheme for jobs graded up to O and Local Government Association Senior Management Job Evaluation Scheme for jobs graded P and above, which ensures a fair and transparent approach to pay.

4.2 As part of the 2016/18 pay award, for NJC staff the national pay spine has been reviewed. Each local authority was then required to assimilate the new pay spine into its grading structure effective from 1 April 2019. The Council's new pay structure has been agreed with the Trade Unions (GMB, Unison and Unite) and is attached at Appendix 1.

4.3 Nationally negotiated pay awards are automatically applied to employee rates of pay under the applicable national conditions of service.

5. CHIEF OFFICERS

Remuneration of Chief Officers

5.1 Under the definitions set out 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
Director of Public Health	Assistant Director Level 1
Assistant Director (Xentrall Shared Services)	Assistant Director Level 1
Assistant Director (Adult Social Care)	Assistant Director Level 2
Assistant Director (Safeguarding & LAC)	Assistant Director Level 2
Assistant Director (Education)	Assistant Director Level 2
Assistant Director (Information & Improvement Services)	Assistant Director Level 2
Assistant Director (Administration, Democratic & Electoral Services)	Assistant Director Level 2

5.2 The salaries relating to the above grades from 1 April 2019 are:

Grade	**Salary**
Chief Executive	£175,319 until 30 April 2019
Interim Managing Director	£149,500 from 1 May 2019
Deputy Chief Executive	£141,714
Director – Level 1	£119,397
Director – Level 2	£108,254
Director – Level 3	£97,641
Assistant Director – Level 1	£92,865
Assistant Director – Level 2	£87,558

5.3 Chief Officers do not receive bonus payments or performance related pay, as it is assumed that they will perform to the highest level, nor do they receive any benefits in kind paid for by the employer.

5.4 Increases in pay for Chief Officers will occur only as a result of:

- Pay awards agreed by way of national/local collective pay bargaining arrangements; or
- 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.
- 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.

5.5 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.

Election Duties undertaken by Chief Officers

5.6 Fees for election duties undertaken by chief officers are not included in their salaries.

For Parliamentary elections the Council receive a Parliamentary Election Order from 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

6. PAYMENTS TO EMPLOYEES UPON TERMINATION OF THEIR EMPLOYMENT (INCLUDING CHIEF OFFICERS)

6.1 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.

6.2 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 policies sets out provisions which apply to all staff regardless of their level of seniority.

6.3. 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.

6.4 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 paragraph 6.5 below), the Council will be given an opportunity to vote before the package is approved.

6.5 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.

6.6 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.

7. EMPLOYMENT OF INDIVIDUALS ALREADY IN RECEIPT OF A LOCAL GOVERNMENT PENSION

7.1 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.

8. EMPLOYMENT OR ENGAGEMENT OF FORMER EMPLOYEES

8.1 The Council will generally not re-employ or engage any individual under a contract of service or a contract for services whom has previously been employed by the Council and left that employment with the benefit of a severance, early retirement or redundancy payment under voluntary arrangements, unless it is in the best interests of the Council to do so or there are exceptional circumstances which would justify doing so.

8.2 In addition the Government is proposing to introduce legislation to enable the recovery of exit payments for higher paid employees returning to the public sector. The Council will amend its policy and seek to recover the required proportion of any exit payment to reflect any change in legislation.

9. THE COUNCIL'S APPROACH TO THE PAY OF ITS LOWEST PAID EMPLOYEES

9.1 The Council reaffirms its commitment to the Real Living Wage and with the introduction of the new pay and grading structure from 1 April 2019 the lowest paid employee, grade C, SCP 3 will be paid £9.36 per hour which exceeds the current Real Living Wage hourly rate.

9.2 The Council has also agreed that apprentices will be paid the National Living Wage for age which starts at £4.35 per hour for 16 to 18 year olds, rising to £8.21 for those who are aged 25 and over.

10. RELATIONSHIP BETWEEN CHIEF OFFICER AND OTHER EMPLOYEES' REMUNERATION

10.1 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 31 December, for employees within the scope of this statement.

10.2 The Council will aim to maintain a pay multiple of less than 10.

10.3 The Council's current Median Hourly Rate is £11.61 as at 31 December 2018 (£11.02 at 31^{st} December 2017) and the Pay Multiple is 7.67 as at 31^{st} December 2018 (7.93 at 31^{st} December 2017). There has been a positive impact resulting in an increase in the Median hourly rate which is primarily due to the pay award in 2018. There has also been a positive impact on the pay multiple which has reduced by 0.26.

11. GENERAL PRINCIPLES REGARDING THE RECRUITMENT OF EMPLOYEES

11.1 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.

11.2 The Council will consider all applicants on merit during the recruitment process and will not discount any applicant on the basis of previous public sector employment and/or the terms of that employment ending save as detailed in paragraph 8.1 above.

12. PUBLICATION OF AND ACCESS TO INFORMATION RELATING TO REMUNERATION OF EMPLOYEES

12.1 The Council will publish their Pay Policy Statement, following approval of Full Council, on the Council's website. In addition remuneration related data associated with the Pay Policy Statement and Code of Recommended Practice for Local Authorities on Data Transparency will be published on the Council's website no later than 31 March, Gender Pay Gap report by 30^{th} March, and information related to the public sector equality duty no later than 30 June.

Pay and Grading Structure 2019/20

OLD SCP	OLD Grades		April 2018 Annual £	April 2018 Hourly Rate £	April 2018 Casual Rate £	NEW SCP	NEW Grades	April 2019 Annual £	April 2019 Hourly Rate £	April 2019 Casual Rate £
10	C		£16,863	£8.74	£9.68	3	C	£18,065	£9.36	£10.37
11	D		£17,007	£8.82	£9.76	4	D	£18,426	£9.55	£10.58
12	D		£17,173	£8.90	£9.86	4	D	£18,426	£9.55	£10.58
13	D		£17,391	£9.01	£9.98	4	D	£18,426	£9.55	£10.58
14	E		£17,681	£9.16	£10.15	5	E	£18,795	£9.74	£10.79
15	E		£17,972	£9.32	£10.32	5	E	£18,795	£9.74	£10.79
16	E		£18,319	£9.50	£10.51	6	E	£19,171	£9.93	£11.00
17	F		£18,672	£9.68	£10.72	7	F	£19,554	£10.13	£11.22
18	F		£18,870	£9.78	£10.83	7	F	£19,554	£10.13	£11.22
19	F		£19,446	£10.08	£11.16	8	F	£19,945	£10.33	£11.45
20	G		£19,819	£10.27	£11.38	9	G	£20,344	£10.54	£11.68
						10	G	£20,751	£10.75	£11.91
21	G		£20,541	£10.65	£11.79	11	G	£21,166	£10.97	£12.15
22	G		£21,074	£10.92	£12.10	12	G	£21,589	£11.19	£12.39
						13	New SCP 13 not used			
23	H		£21,693	£11.24	£12.45	14	H	£22,462	£11.64	£12.89
24	H		£22,401	£11.61	£12.86	15	H	£22,911	£11.87	£13.15
						16	H	£23,369	£12.11	£13.41
25	H		£23,111	£11.98	£13.27	17	H	£23,836	£12.35	£13.68
						18	New SCP 18 not used			
26	I		£23,866	£12.37	£13.70	19	I	£24,799	£12.85	£14.23
27	I		£24,657	£12.78	£14.15	20	I	£25,295	£13.11	£14.52
						21	I	£25,801	£13.37	£14.81
28	I		£25,463	£13.20	£14.62	22	I	£26,317	£13.64	£15.11
29	J		£26,470	£13.72	£15.19	23	J	£26,999	£13.99	£15.50
30	J		£27,358	£14.18	£15.70	24	J	£27,905	£14.46	£16.02
31	J		£28,221	£14.63	£16.20	25	J	£28,785	£14.92	£16.52
32	J		£29,055	£15.06	£16.68	26	J	£29,636	£15.36	£17.01
33	K	K	£29,909	£15.50	£17.17	27	K	£30,507	£15.81	£17.51
34	K	K	£30,756	£15.94	£17.65	28	K	£31,371	£16.26	£18.01
35	K	K	£31,401	£16.28	£18.02	29	K	£32,029	£16.60	£18.38
36	K		£32,233	£16.71	£18.50	30	K	£32,878	£17.04	£18.87
36		L	£32,233	£16.71	£18.50	31	L	£33,799	£17.52	£19.40
37	L	L	£33,136	£17.18	£19.02	31	L	£33,799	£17.52	£19.40
38	L	L	£34,106	£17.68	£19.58	32	L	£34,788	£18.03	£19.97
39		L	£35,229	£18.26	£20.22	33	L	£35,934	£18.63	£20.63
39		M	£35,229	£18.26	£20.22	34	M	£36,876	£19.11	£21.17
40	M	M	£36,153	£18.74	£20.75	34	M	£36,876	£19.11	£21.17
41	M	M	£37,107	£19.23	£21.30	35	M	£37,849	£19.62	£21.73
42	M		£38,052	£19.72	£21.84	36	M	£38,813	£20.12	£22.28
42		N	£38,052	£19.72	£21.84	37	N	£39,782	£20.62	£22.83
43	N	N	£39,002	£20.22	£22.39	37	N	£39,782	£20.62	£22.83
44	N	N	£39,961	£20.71	£22.94	38	N	£40,760	£21.13	£23.40
45		N	£40,858	£21.18	£23.45	39	N	£41,675	£21.60	£23.92
45		O	£40,858	£21.18	£23.45	40	O	£42,683	£22.12	£24.50
46	O	O	£41,846	£21.69	£24.02	40	O	£42,683	£22.12	£24.50
47	O	O	£42,806	£22.19	£24.57	41	O	£43,662	£22.63	£25.06
48	O		£43,757	£22.68	£25.12	42	O	£44,632	£23.13	£25.62
48		P	£43,757	£22.68	£25.12	43	P	£45,591	£23.63	£26.17
49	P	P	£44,697	£23.17	£25.66	43	P	£45,591	£23.63	£26.17
50	P	P	£45,763	£23.72	£26.27	44	P	£46,678	£24.19	£26.79
51		P	£46,914	£24.32	£26.93	45	P	£47,852	£24.80	£27.47
51		Q	£46,914	£24.32	£26.93	46	Q	£48,897	£25.34	£28.07
52	Q	Q	£47,938	£24.85	£27.52	46	Q	£48,897	£25.34	£28.07
53	Q	Q	£48,769	£25.28	£27.99	47	Q	£49,744	£25.78	£28.55
54	Q	Q	£49,618	£25.72	£28.48	48	Q	£50,610	£26.23	£29.05
55	SM4	SM4	£52,388	£27.15	£30.07	49	Not used			
56	SM4	SM4	£53,502	£27.73	£30.71	50	SM4	£54,572	£28.29	£31.32
57	SM4	SM4	£54,618	£28.31	£31.35	51	SM4	£55,710	£28.88	£31.98
58	SM4	SM4	£55,734	£28.89	£31.99	52	SM4	£56,849	£29.47	£32.63
59	SM3	SM3	£56,848	£29.47	£32.63	53	Not used			
60	SM3	SM3	£57,964	£30.04	£33.27	54	SM3	£59,123	£30.65	£33.94
61	SM3	SM3	£59,077	£30.62	£33.91	55	SM3	£60,259	£31.23	£34.59
62	SM3	SM3	£60,188	£31.20	£34.55	56	SM3	£61,392	£31.82	£35.24
63	SM2	SM2	£68,674	£35.60	£39.42	57	SM2	£70,047	£36.31	£40.21
64	SM1	SM1	£76,997	£39.91	£44.20	58	SM1	£78,537	£40.71	£45.08

Appendix C(2)

Body	Role	Officer
Spark of Genius NE LLP	Board Member	Garry Cummings Director of Finance and Business Services, Martin Gray, Director of Children Services
North East Culture Partnership	Board Member	Reuben Kench, Director of Culture, Leisure and Events
Tees River Trust	Board Member	Margie Stewart-Piercy, Project Manager
Stockton Riverside College	Governor	Deborah Merrett, Chief Advisor
Bishopton Management Board	Governor	Angela White, Senior Advisor (11-19)
Grangefield Academy	LA Representative	Angela White, Senior Advisor (11-19)
North Shore Academy	LA Representative	Angela White, Senior Advisor (11-19)
Share the Vision	Trustee	Mark Freeman, Libraries and Information Services Manager
Culture Bridge NE	Board Member	Mark Freeman, Libraries and Information Services Manager
Society of Chief Librarians	Trustee	Mark Freeman, Libraries and Information Services Manager
Oliver and Norman Field Charity	Trustee	Sarah Runnacles, Senior Occupational Therapist
Achieving Real Change In Communities CIC (ARCC)	Board Member	Julie Danks, Deputy Chief Executive
Tees Valley LEP Area ESI Funds Local Sub-Committee	Board Member	Neil Schneider, Chief Executive
Stockton BID Company limited	Board Member	Julie Danks, Deputy Chief Executive

Appendix D

Council Tax Resolution

A. Members are invited to **Recommend** that:

1. The Council calculated as its Council Tax Base for the year, in accordance with Section 31B (3) of the Local Government Finance Act 1992, as amended (the Act), and reported to the Leader on 20th December, 2018.

Tax Base approved under the Scheme of Delegation on 20th December, 2018.
.

a) the amount calculated by the Council in accordance with Section 31B, as its Council Tax Base for the year: **£56,112.7**

b) the amounts calculated by the Council as the amounts of its Council Tax Base for the year for dwellings in those parts of its areas to which one or more special items relate.

Part of the Council's Area	Tax Base
Aislaby & Newsham	99.82
Carlton	353.11
Castleleavington / Kirklevington	754.85
Egglescliffe & Eaglescliffe	3,158.15
Elton	133.03
Grindon & Thorpe Thewles	327.42
Hilton	211.43
Ingleby Barwick	7,708.20
Long Newton	339.55
Maltby	222.63
Preston	599.33
Redmarshall	151.50
Stillington & Whitton	362.05
Thornaby	5,710.59
Wolviston	390.25
Wynyard	1,405.71
Yarm	3,458.11
Billingham	8,938.59

2. The amounts for the year that were approved by the Council on 27th February 2019 in accordance with Section 31A of the Act:

a) The aggregate amount that the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act**: £391,258,839**

The Council's total expenditure for the year including Parish Precepts

b) The aggregate amount that the Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act: **£301,245,111**

The total income to be raised by the Council in the year plus movement on revenue balances and grants

c) The amount by which the aggregate at 2 a) above exceeds the aggregate at 2 b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its council tax requirement for the year: **£90,013,728.**

The Council's Council Tax Requirement for the year including Parish Precepts

d) The basic amount of Council Tax for the year, being the amount at 2.c) above, divided by the amount at 1.a) above, calculated in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year (including Parish precepts); **£1,604.16**.

The average Tax at Band D, including the Parish precepts.

e) The aggregate amount of all special items referred to in Section 34(1) of the Act**: £870,287**.

The total of all Parish precepts.

f) The basic amount of Council Tax for those parts of the area to which no special items relate**: £1,588.65**.

Stockton-On-Tees Borough's Basic Tax

B. Members are invited to **Note**:

3. a) Parish Precepts are:

Part of the Council's Area	**2019/20 Precept**	**Band D Equivalent**
	£	**£**
Aislaby & Newsham	0	0.00
Carlton	5,000	14.16
Castleleavington / Kirklevington	13,500	17.88
Egglescliffe & Eaglescliffe	56,477	17.88
Elton	0	0.00
Grindon & Thorpe Thewles	9,518	29.07
Hilton	2,311	10.93
Ingleby Barwick	180,300	23.39
Long Newton	11,764	34.65
Maltby	3,504	15.74
Preston	5,029	8.39
Redmarshall	3,900	25.74
Stillington & Whitton	8,957	24.74
Thornaby	146,771	25.70
Wolviston	12,371	31.70
Wynyard	25,604	18.21
Yarm	124,358	35.96
Billingham	260,923	29.19
	870,287	

b) Parish Funding Allocations are:

Part of the Council's Area	2019/20 Funding Allocation
	£
Aislaby & Newsham	0
Carlton	22
Castleleavington / Kirklevington	348
Egglescliffe & Eaglescliffe	5,446
Elton	0
Grindon	0
Hilton	129
Ingleby Barwick	3,445
Long Newton	236
Maltby	138
Preston	471
Redmarshall	118
Stillington & Whitton	1,243
Thornaby	36,050
Wolviston	533
Yarm	6,141
Billingham	23,509
	77,829

4. Office of the Police & Crime Commissioner for Cleveland has stated the sum of **£14,058,476** in a precept issued to the Council in accordance with Section 40 of the Act; this translates into the following sums for each Council Tax Band:

Office of the Police & Crime Commissioner for Cleveland Tax

Band	Sum
	£
A	167.03
B	194.86
C	222.70
D	250.54
E	306.22
F	361.89
G	417.57
H	501.08

5. Cleveland Fire Authority has stated the sum of **£4,340,878** in a precept issued to the Council in accordance with Section 40 of the Act: this translates into the following sums for each Council Tax Band:

Cleveland Fire Authority Tax

Band	Sum
	£
A	51.57
B	60.17
C	68.76
D	77.36
E	94.55
F	111.74
G	128.93
H	154.72

C. Members are **Recommended** to set amounts of Council Tax for the year, being the aggregate of items 2 (f) 3,4 and 5 above in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, for each category of dwelling in each area as shown at **Appendix D(1),D(2),D(3)**.

Total Council Tax bill levels, including Borough, Police & Crime Commissioner, Fire Authority and Parish elements

D. Members are also invited to Note

1. Each year the Secretary of State in accordance with Section 52ZC Local Government Finance Act 1992 will determine a limit for council tax rises. If an authority proposes to raise taxes above this limit they will have to hold a referendum to get approval from local voters.

Determination whether Council tax rate is excessive

2. The limit for council tax rises applicable to the authority as set by the Secretary of State for 2019/20 is 3.0%.

E. Members are asked to Note that the Council's basic amount of Council Tax for 2019/20 is not excessive in accordance with the principles approved under Section 52ZB Local Government Finance Act 1992 and D above and that a referendum is not required.

Appendix D(1)

Council Tax - Parish Demands
2019/20

Item	Parish	Band							
		A	**B**	**C**	**D**	**E**	**F**	**G**	**H**
		£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
1	Aislaby and Newsham	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2	Carlton	9.44	11.01	12.59	14.16	17.31	20.45	23.60	28.32
3	Castlelevington / Kirklevington	11.92	13.91	15.89	17.88	21.85	25.83	29.80	35.76
4	Egglescliffe	11.92	13.91	15.89	17.88	21.85	25.83	29.80	35.76
5	Elton	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6	Grindon	19.38	22.61	25.84	29.07	35.53	41.99	48.45	58.14
7	Hilton	7.29	8.50	9.72	10.93	13.36	15.79	18.22	21.86
8	Ingleby Barwick	15.59	18.19	20.79	23.39	28.59	33.79	38.98	46.78
9	Long Newton	23.10	26.95	30.80	34.65	42.35	50.05	57.75	69.30
10	Maltby	10.49	12.24	13.99	15.74	19.24	22.74	26.23	31.48
11	Preston	5.59	6.53	7.46	8.39	10.25	12.12	13.98	16.78
12	Redmarshall	17.16	20.02	22.88	25.74	31.46	37.18	42.90	51.48
13	Stillington & Whitton	16.49	19.24	21.99	24.74	30.24	35.74	41.23	49.48
14	Thornaby	17.13	19.99	22.84	25.70	31.41	37.12	42.83	51.40
15	Wolviston	21.13	24.66	28.18	31.70	38.74	45.79	52.83	63.40
16	Wynyard	12.14	14.16	16.19	18.21	22.26	26.30	30.35	36.42
17	Yarm	23.97	27.97	31.96	35.96	43.95	51.94	59.93	71.92
18	Billingham	19.46	22.70	25.95	29.19	35.68	42.16	48.65	58.38

Council Tax - Borough and Parish Demands 2019/20

Item	Parish	Band							
		A	B	C	D	E	F	G	H
	Factor	6	7	8	9	11	13	15	18
		£	£	£	£	£	£	£	£
1	Aislaby and Newsham	1,059.10	1,235.62	1,412.14	1,588.65	1,941.68	2,294.72	2,647.75	3,177.30
2	Carlton	1,068.54	1,246.63	1,424.73	1,602.81	1,958.99	2,315.17	2,671.35	3,205.62
3	Castlelevington / Kirklevington	1,071.02	1,249.53	1,428.03	1,606.53	1,963.53	2,320.55	2,677.55	3,213.06
4	Egglescliffe	1,071.02	1,249.53	1,428.03	1,606.53	1,963.53	2,320.55	2,677.55	3,213.06
5	Elton	1,059.10	1,235.62	1,412.14	1,588.65	1,941.68	2,294.72	2,647.75	3,177.30
6	Grindon & Thorpe Thewles	1,078.48	1,258.23	1,437.98	1,617.72	1,977.21	2,336.71	2,696.20	3,235.44
7	Hilton	1,066.39	1,244.12	1,421.86	1,599.58	1,955.04	2,310.51	2,665.97	3,199.16
8	Ingleby Barwick	1,074.69	1,253.81	1,432.93	1,612.04	1,970.27	2,328.51	2,686.73	3,224.08
9	Long Newton	1,082.20	1,262.57	1,442.94	1,623.30	1,984.03	2,344.77	2,705.50	3,246.60
10	Maltby	1,069.59	1,247.86	1,426.13	1,604.39	1,960.92	2,317.46	2,673.98	3,208.78
11	Preston	1,064.69	1,242.15	1,419.60	1,597.04	1,951.93	2,306.84	2,661.73	3,194.08
12	Redmarshall	1,076.26	1,255.64	1,435.02	1,614.39	1,973.14	2,331.90	2,690.65	3,228.78
13	Stillington & Whitton	1,075.59	1,254.86	1,434.13	1,613.39	1,971.92	2,330.46	2,688.98	3,226.78
14	Thornaby	1,076.23	1,255.61	1,434.98	1,614.35	1,973.09	2,331.84	2,690.58	3,228.70
15	Wolviston	1,080.23	1,260.28	1,440.32	1,620.35	1,980.42	2,340.51	2,700.58	3,240.70
16	Wynyard	1,071.24	1,249.78	1,428.33	1,606.86	1,963.94	2,321.02	2,678.10	3,213.72
17	Yarm	1,083.07	1,263.59	1,444.10	1,624.61	1,985.63	2,346.66	2,707.68	3,249.22
18	Billingham	1,078.56	1,258.32	1,438.09	1,617.84	1,977.36	2,336.88	2,696.40	3,235.68
19	Areas without Parish Councils	1,059.10	1,235.62	1,412.14	1,588.65	1,941.68	2,294.72	2,647.75	3,177.30

Appendix D(3)

Council Tax - Total Demand (Borough, Parishes, Police and Fire) 2019/20

Item	Parish	Band							
	Factor	A 6	B 7	C 8	D 9	E 11	F 13	G 15	H 18
		£	£	£	£	£	£	£	£
1	Aislaby and Newsham	1,277.70	1,490.65	1,703.60	1,916.55	2,342.45	2,768.35	3,194.25	3,833.10
2	Carlton	1,287.14	1,501.66	1,716.19	1,930.71	2,359.76	2,788.80	3,127.85	3,861.42
3	Castlelevington / Kirklevington	1,289.62	1,504.56	1,719.49	1,934.43	2,364.30	2,794.18	3,224.05	3,868.86
4	Egglescliffe	1,289.62	1,504.56	1,719.49	1,934.43	2,364.30	2,794.18	3,224.05	3,868.86
5	Elton	1,277.70	1,490.65	1,703.60	1,916.55	2,342.45	2,768.35	3,194.25	3,833.10
6	Grindon & Thorpe Thewles	1,297.08	1,513.26	1,729.44	1,945.62	2,377.98	2,810.34	3,242.70	3,891.24
7	Hilton	1,284.99	1,499.15	1,713.32	1,927.48	2,355.81	2,784.14	3,212.47	3,854.96
8	Ingleby Barwick	1,293.29	1,508.84	1,724.39	1,939.94	2,371.04	2,802.14	3,233..23	3,879.88
9	Long Newton	1,300.80	1,517.60	1,734.40	1,951.20	2,384.80	2,818.40	3,252.00	3,902.40
10	Maltby	1,288.19	1,502.89	1,717.59	1,932.29	2,361.69	2,791.09	3,220.48	3,864.58
11	Preston	1,283.29	1,497.18	1,711.06	1,924.94	2,352.70	2,780.47	3,208.23	3,849.88
12	Redmarshall	1,294.86	1,510.67	1,726.48	1,942.29	2,373.91	2,805.53	3,237.15	3,884.58
13	Stillington & Whitton	1,294.19	1,509.89	1,725.59	1,941.29	2,372.69	2,804.09	3,235.48	3,882.58
14	Thornaby	1,294.83	1,510.64	1,726.44	1,942.25	2,373.86	2,805.47	3,237.08	3,884.50
15	Wolviston	1,298.83	1,515.31	1,731.78	1,948.25	2,381.19	2,814.14	3,247.08	3,896.50
16	Wynyard	1289.84	1504.81	1719.79	1934.76	2364.71	2794.65	3224.60	3869.52
17	Yarm	1,301.67	1,518.62	1,735.56	1,952.51	2,386.40	2,820.29	3,254.18	3,905.02
18	Billingham	1,297.16	1,513.35	1,729.55	1,945.74	2,378.13	2,810.51	3,242.90	3,891.48
19	Areas without Parish Councils	1,277.70	1,490.65	1,703.60	1,916.55	2,342.45	2,768.35	3,194.25	3,833.10
	Police Precept included - all areas	167.03	194.86	222.70	250.54	306.22	361.89	417.57	501.08
	Fire Precept included - all areas	51.57	60.17	68.76	77.36	94.55	111.74	128.93	154.72

Appendix E

STOCKTON ON TEES CAPITAL STRATEGY REPORT 2019/20

Introduction

This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as land, property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2019/20, the Council is planning capital expenditure of £61.607m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Schools Capital	10.814	9.592	19.109	4.000	15.060
Housing Regeneration & Town Centres	8.521	18.924	27.209	13.526	10.110
Transportation	5.037	8.229	3.357	0	0
Capital investments	6.402	14.366	11.932	0.868	0
TOTAL	**30.774**	**51.111**	**61.607**	**18.394**	**25.170**

The main General Fund capital projects in 2019/20 include the Schools Capital Programme £19.1m, Town Centres £13.5m, Globe Theatre £11.7m and Ingleby Barwick Leisure Centre £7.5m.

Governance: All capital projects are fully appraised and Cabinet approval is required before a project or progamme can be included in the approved Capital Programme. The majority of projects are monitored through the Project Delivery Framework- a gateway decision making process to appraise and assess schemes from inception to delivery. Governance of this process is managed at 2 levels. The Executive Programme Board which considers strategic fit with overall priorities from initiation stage and the Programme Management Board which oversees a portfolio of programmes and projects from business case appraisal to project delivery and completion.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Capital receipts	2.197	2.146	10.103	0	0
Capital grants	12.457	20.465	22.908	4.409	15.060
Capital contributions	5.749	1.767	0.499	0	0
Revenue	5.178	1.934	4.809	0.094	0.110
Borrowing	5.193	24.799	23.288	13.891	10.000
TOTAL	**30.774**	**51.111**	**61.607**	**18.394**	**25.170**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance but capital receipts are not being used for this purpose within the current financial plan. Planned MRP is as follows:

Table 3: Replacement of debt finance in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Own resources	0.653	0.671	0.789	1.243	1.286

Ministry of Housing Communities and Local Government (MHCLG) Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. **The recommended statement is attached at schedule 1 for approval.**

The Council’s cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, loans fund repayments and capital receipts used to replace debt. The CFR is expected to increase by £21.7m during 2019/20. Based on the above figures for expenditure and financing, the Council’s estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund services	113.6	137.0	158.7	170.8	179.0
Capital investments	0.0	0.0	0.0	0.0	0.0
TOTAL CFR	**113.6**	**137.0**	**158.7**	**170.8**	**179.0**

Asset management: Asset Management is a systematic process of lifecycle management; developing, operating, maintaining, upgrading, and rationalizing of assets in a cost effective manner. To ensure that capital assets continue to be of long-term use, the Council provides successful Asset Management Planning by maintaining up to date condition information and applying an agreed criteria to enable informed decisions regarding maintenance programmes and capital spending on council premises. Management of this is delivered in partnership between the Strategic Asset Management and Facilities Management functions.

This approach maintains the investment in the asset and addresses required improvement, to ensure an appropriate, safe environment and continual operation in line with local and statutory obligations.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £3.6m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales	2.271	2.449	3.569	5.800	2.000
Loans repaid	0.000	0.020	0.007	0.009	0.010
TOTAL	**2.271**	**2.469**	**3.576**	**5.809**	**2.010**

Flexible Use of Capital Receipt's Strategy

MHCLG permit local authorities to treat revenue expenditure "incurred on projects designed to reduce future revenue costs and/or transform service delivery" as capital expenditure during the six financial years from 2016/17 to 2021/22.

As part of this local authorities are required to approve a "flexible use of capital receipts strategy" each year, as part of the revenue budget setting process. This strategy must include details of:

- each project that plans to make use of the capital receipts flexibility
- the expected savings and service transformation to be achieved
- actual savings being achieved on projects approved in previous strategies.

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

Presently the Council has not used these powers previously and has not planned to use this across the medium term. The flexible use of capital receipts will be considered for all appropriate projects going forward and reported accordingly. **This strategy is presented for approval.**

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, at the 31st December 2018 the Council had £47.3m debt and £45.1m treasury investments.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore when borrowing will seek to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transfers from local government reorganisation are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £m

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Debt (incl. PFI & leases)	54.4	53.3	97.4	104.9	114.3
Capital Financing Requirement	113.6	137.0	158.7	170.8	179.0

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 6, the Council expects to comply with this in the medium term.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently estimated to be £39.2m at 31st March 2019 and is forecast to rise to £133.3m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Outstanding borrowing	47.4	47.3	92.2	100.2	110.2
Liability benchmark	8.6	39.2	88.4	105.2	133.3

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £millions

	2018/19 limit	**2019/20 limit**	**2020/21 limit**	**2021/22 limit**
Authorised limit	163.1	176.7	188.8	197.0
Operational boundary	147.3	158.7	170.8	179.0

- Further details on borrowing are included in the Treasury Management Strategy included at Appendix F

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested in property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 9: Treasury management investments in £millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Near-term investments	39.2	3.7	10.0	10.0	10.0
Long-term investments	9.6	14.3	14.3	14.3	14.3
TOTAL	**48.8**	**18.0**	**24.3**	**24.3**	**24.3**

- Further details on treasury investments are included in the Treasury Management Strategy included at Appendix F

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and Business Services and staff, who must act in line with the treasury management strategy and treasury management practices approved by Council. A mid-term and annual reports on treasury management activity are presented to the audit committee for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to the Council's subsidiaries. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Business Services and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme and or via Cabinet.

- Further details on service investments are included within the Investment Strategy included at Appendix G.

Commercial Activities

MHCLG defines property to be an investment if it is held primarily or partially to generate a profit. The Council has for a number of years owned investment properties that meet this definition and these make profits which are spent on local public services. Total commercial investments are currently valued at £6.3m across a range of properties such as estate shops, garages and ground leases and these provided a net return after all costs of 6.5% for 2018/19.

Governance: Decisions on commercial investments are made by the Director of Finance and Business Services in line with the criteria and limits approved by Council in the investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme and or via Cabinet / Council.

- Further details on service investments are included within the Investment Strategy included at Appendix G.

Liabilities

In addition to debt of £54.4m detailed in Table 6, the Council is committed to making future payments to cover its pension fund deficit valued at £223.9m. The Council has also agree to guarantee the performance of the ARCC (Achieving Real Change in Communities) under the service agreement pursuant to a guarantee with the Secretary of State.

Governance: Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Director of Finance and Business Services. The risk of liabilities crystallising and requiring payment is monitored by Corporate Accounts and reported appropriately. New liabilities are reported to full Council for approval as appropriate.

- Further details on liabilities and guarantees are on page 49 of the 2017/18 Statement of Accounts. Pension information is covered in pages 45 – 48 of the same document.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from council tax, business rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	3.4	3.3	4.2	5.2	5.1
Proportion of net revenue stream	1.2%	1.1%	1.5%	2.0%	1.9%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance and Business Services is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.
The council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.
Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Director of Finance and Business Services.

Schedule 1 – Annual Minimum Revenue Provision Statement 2019/20

Where the Authority finances capital expenditure by debt, the Capital Financing Requirement (CFR), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2012.
The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

For capital expenditure incurred before 1st April 2008 and for supported capital expenditure incurred on or after that date, MRP will be determined on an annuity method. This option provides for repayment of the CFR arising before 1 April 2008 by the end of 2057/58.
For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset determined on an annuity method.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until the year following the year in which the relevant assets become operational.

Appendix F

STOCKTON ON TEES TREASURY MANAGEMENT STRATEGY 2019/20

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

The CIPFA Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Code identifies twelve areas where statements of Treasury Management Practices (TMP's) should be developed to implement the full requirements of the Code. These responsibilities were approved by Council in March 2018 and no changes are proposed for the forthcoming year.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy presented at **Appendix G** of this report.

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Schedule 1.**

Local Context

On 31st December 2018, the Authority held £47.3m of borrowing and £45.1m of investments. This is set out in further detail at **Schedule 2**. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
General Fund CFR	113.6	137.0	158.7	170.8	179.0
Less: Other debt liabilities	-7.0	-6.0	-5.2	-4.7	-4.1
Loans CFR	**106.5**	**131.0**	**153.5**	**166.1**	**174.9**
Less: External borrowing	-47.4	-47.3	-92.2	-100.2	-110.2
Internal (over) borrowing	**59.1**	**83.7**	**61.3**	**66.0**	**64.7**
Less: Usable reserves	-94.9	-89.3	-63.4	-60.3	-42.0
Less: Working capital	-13.1	-12.5	-11.8	-10.6	-9.5
(Investments) / New borrowing	**-48.8**	**-18.0**	**-13.8**	**-5.0**	**13.2**

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

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to increase borrowing up to £110.2m over the forecast period.
CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2019/20.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Loans CFR	106.5	131.0	153.5	166.1	174.9
Less: Usable reserves	-94.9	-89.3	-63.4	-60.3	-42.0
Less: Working capital	-13.1	-12.5	-11.8	-10.6	-9.5
Plus: Minimum investments	10	10	10	10	10
Liability Benchmark	**8.6**	**39.3**	**88.4**	**105.2**	**133.3**

Borrowing Strategy

The Authority currently holds £47.3 million of loans, a decrease of £0.1 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Authority expects borrowing to increase to £110.2 million across the forecast period. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £176.7million.

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

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

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

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

LOBOs: LOBO (Lender's Option Borrower's Option) loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment and there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

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

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Authority's investment balance has ranged between £76.0 million and £45.1 million, but these are estimated to reduce due to planned expenditure on the capital programme and use of reserves.

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

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: The Authority has diversified into higher yielding asset classes over the last couple of years investing £15m with the CCLA Property Fund. This diversification along with a reduction in cash balances related to funding the capital programme means that the Authority's remaining surplus cash will be invested in short-term unsecured bank deposits, with other local authorities and in money market funds.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5,000,000 2 years	£10,000,000 5 years	£10,000,000 50 years	£5,000,000 20 years	£5,000,000 10 years
AA+	£5,000,000 2 years	£10,000,000 5 years	£10,000,000 25 years	£5,000,000 10 years	£5,000,000 5 years
AA	£5,000,000 2 years	£10,000,000 2 years	£10,000,000 15 years	£5,000,000 5 years	£5,000,000 5 years
AA-	£5,000,000 2 years	£10,000,000 2 years	£10,000,000 10 years	£5,000,000 4 years	£5,000,000 5 years
A+	£5,000,000 2 years	£10,000,000 2 years	£5,000,000 5 years	£5,000,000 3 years	£5,000,000 3 years
A	£5,000,000 1 Year	£10,000,000 1 year	£5,000,000 5 years	£5,000,000 2 years	£5,000,000 3 years
A-	£5,000,000 6 months	£10,000,000 1 Year	£5,000,000 5 years	£5,000,000 1 Year	£5,000,000 3 years
None	n/a	n/a	£10,000,000 25 years	£3,000,000 5 years	£5,000,000 5 years
Pooled funds and real estate investment trusts		£20m per fund			

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

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

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

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

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

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £5 million per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

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

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and the aim will be to maintain balances at £0 per bank. But please note for cash flow purposes this may not always be possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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

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

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

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £7.4 million on 31st March 2019. The maximum that will be lent to any one organisation (other than the UK Government) will be £20 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£20,000,000
UK Central Government	unlimited
Any group of organisations under the same ownership	£20,000,000
Any group of pooled funds under the same management	£25,000,000
Negotiable instruments held in a broker's nominee account	£25,000,000
Foreign countries	£10,000,000
Registered providers and registered social landlords	£25,000,000
Unsecured investments with building societies	£10,000,000
Loans to unrated corporates	£10,000,000
Money Market Funds	£50,000,000
Real estate investment trusts	£25,000,000

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

Treasury Management Indicators

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

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£10m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
One-year revenue impact of a 1% rise in interest rates	(£103,000)
One-year revenue impact of a 1% fall in interest rates	£103,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. A 1% rise in all interest rates would have a £103,000 negative impact on the councils revenue account as the increase in borrowing costs would exceed the amount we could generate in investment income.

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

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

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

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£60m	£50m	£40m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.
Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and

forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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

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

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance and Business Services believes this to be the most appropriate status.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance and Business Services, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below and will be considered if circumstance significantly change.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Schedule 1 – Arlingclose Economic & Interest Rate Forecast December 2018
Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.

- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

Schedule 2 – Existing Investment & Debt Portfolio Position

	31/12/2018 Actual Portfolio £m	31/12/2018 Average Rate %
External borrowing:		
Public Works Loan Board	10.3	6.03%
Local authorities	0.0	
LOBO loans from banks	37.0	4.82%
Other loans	0.0	
Total external borrowing	**47.3**	
Other long-term liabilities:		
Private Finance Initiative	5.7	
Finance Leases	0.4	
Total other long-term liabilities	**6.1**	
Total gross external debt	**53.4**	
Treasury investments:		
Banks & building societies	0.1	0.30%
Government (incl. local authorities)	0.0	
Money Market Funds	30.0	0.75%
Other pooled funds	15.0	4.40%
Total treasury investments	**45.1**	
Net Debt	**8.3**	

Appendix G

INVESTMENT STRATEGY REPORT 2019/20

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003), and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of the Police, Fire, Parishes and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

Further details: Full details of the Council's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix F of this report.

Service Investments: Loans

Contribution: The Council can lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. Details of the loans provided as at 31st March 2018 are shown in table 1 below.

During 2018/19 the Council has also provided loans to the Hotel Company for pre-opening expenditure £300k and cash flow support £500k. The Council has also approved £1.6m loan to the Victoria Estate Joint Venture.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, statutory government guidance requires us to set upper limits on the outstanding loans to each category of borrower. **It is recommended that the limits are set as follows**;

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2018 actual			2019/20
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries / Joint Ventures	0.000	0	0.000	**5.000**
Local businesses	0.060	0	0.060	**0.200**
Local residents	0.224	0	0.224	**0.300**
Employees	0.018	0	0.018	**0.050**
TOTAL	**0.302**	**0**	**0.302**	**5.550**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent.

The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

Service Investments: Shares

Contribution: The Council can invest in the shares of its subsidiaries, its suppliers, and local businesses if required to support local public services and stimulate local economic growth. The Council has limited shareholdings at present. The only shareholdings are SITA (value in the accounts £377k), Tees Valley Airport (value in the accounts £0), Hotel Company (Value in the accounts £1) Stockton Holding Company (Value in the accounts £1).

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, and ensure that total exposure to any fall in values remains proportionate to the size of the Council, statutory government guidance requires us to set upper limits on the sum invested. **It is recommended that the limits are set as follows**;

Table 2: Shares held for service purposes in £ millions

Category of company	31.3.2018 actual			2019/20
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries / Joint Ventures	0	0	0	**5.000**
Local businesses	0.377	0	0.377	**2.000**
TOTAL	**0.377**	**0**	**0.377**	**7.000**

Risk assessment: The Council will assess the risk of loss before entering into a purchase and whilst holding shares by

- Assessing the market that we will be competing in, the nature and level of competition, how the market will evolve over time, the barriers to entry and exit and any ongoing investment requirements,
- utilise external advisors be they treasury management advisors, property investment advisors or any other relevant persons,
- utilise credit ratings to assess risk and monitor these ratings on a regular basis.

Liquidity: Where the financial commitment is linked to a contractual arrangement then the contract period will determine the length of the commitment.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

Contribution: MHCLG defines property to be an investment if it is held primarily or partially to generate a profit. The Council has for a number of years owned investment properties that meet this definition and these make profits which are spent on local public services. Details of these are included in table 3 below.

Table 3: Property held for investment purposes in £ millions

Property	**31.3.2018 Value £m**
Estate Shops	0.610
Town Centre	2.507
Ground Leases	2.035
Garages	0.120
Agricultural	0.900
Advertising Hoardings	0.167
TOTAL	**6.339**

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. The majority of the Investment Properties have been held by the Council for a number of years and it is prudent to assume that current valuations exceed original purchase price.

A fair value assessment of the Council's investment property portfolio has been made by the Council's Valuer as at 31st March 2018. These assets are valued at the end of every year as part of the closure of accounts process.
The new Hampton by Hilton Hotel will be classed as an investment property and will appear on the Councils balance sheet at the end of the 2018/19 financial year.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent.

The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type are agreed by Cabinet / Council.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions.

Proportionality

The Council is not materially dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.

Table 4: Proportionality of Investments

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m
Gross service expenditure	426.000	392.000	390.00
Investment income	0.184	0.346	0.346
Proportion	0.04%	0.09%	0.09%

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council has not borrowed and has no plans to borrow in advance of need.

Capacity, Skills and Culture

Elected members and statutory officers: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that Cabinet members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.
Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

Commercial deals: The Council's in-house Land & Property team is represented by chartered surveyors who have the necessary knowledge and skills to undertake commercial transactions and they undertake this work in accordance with internal procedures as well as compliance with Local Government Act 1972 and RICS Practice Statements.

The Council has not acquired any commercial investments for a number of years but if we do so in the future the in-house capacity would be reviewed to deal with such transactions and on-going management and where necessary bring in external advisors/surveyors and estate managers proportionate to the level of work.

Corporate governance: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
The Council had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast £m
Treasury management investments	48.800	18.000	24.300
Service investments: Loans	0.302	1.231	2.831
Service investments: Shares	0.377	0.377	0.377
Commercial investments: Property	6.339	23.339	23.339
TOTAL INVESTMENTS	**55.818**	**42.947**	**50.847**
Commitments to lend	0	0	1.600
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**55.818**	**42.947**	**52.447**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	**31.03.2018 Actual £m**	**31.03.2019 Forecast £m**	**31.03.2020 Forecast**
Treasury management investments	0	0	0
Service investments: Loans	0	0	1.600
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	17.000
TOTAL FUNDED BY BORROWING	**0**	**0**	**18.600**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	**2017/18 Actual**	**2018/19 Forecast**	**2019/20 Forecast**
Treasury management investments	0.8%	1.4%	2.9%
Service investments: Loans	0.0%	0.7%	1.9%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	6.2%	6.5%	4.5%
ALL INVESTMENTS	**1.3%**	**1.9%**	**3.6%**

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Background Papers
Treasury Management Strategy 2018/19
Annual Statement of Accounts 2017/18

Wards/Ward Councillors
Not applicable.

Community Safety Implications
None

Risk Assessment
There are no changes to the existing risk assessment at this stage.