AGENDA ITEM

REPORT TO CABINET

20 FEBRUARY 2020

REPORT OF CORPORATE MANAGEMENT TEAM

CABINET / COUNCIL DECISION

Leader of the Council – Councillor Bob Cook

MEDIUM TERM FINANCIAL PLAN UPDATE AND STRATEGY

SUMMARY

This is the final report in setting the Council's 2020/21 Budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2024. The report also includes an update on the financial performance for 2019/20.

The 2019/20 financial position shows an overall improvement from the previous reported position but still shows a projected overspend. The main pressure is in Children in our Care which is a national position and there is significant work ongoing in this area.

The report outlines proposals for setting the 2020/21 budget and outlines the projected MTFP. There remains significant uncertainty around Government funding for 2021 onwards and assumptions and estimates have had to be made. Future Government funding will be affected by:

- Government Spending Review
- Fair Funding Review
- Review of Business Rates Retention

Based on the assumptions in the report and subject to decisions on Council Tax levels, it is expected that the Council will have a balanced Budget for 2020/21 and a sustainable Medium Term Financial Plan.

REASON FOR RECOMMENDATIONS/DECISIONS

1. The report outlines recommendations to Council to:

   - Approve the 2020/21 budget, MTFP and Capital Programme
   - Approve Council Tax
   - Agree the Pay Policy Statement, Capital Strategy, Treasury Management Strategy and Investment Strategy.

RECOMMENDATIONS

<u>COUNCIL DECISIONS</u>

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 2020/21 Council Tax requirement for Stockton-on-Tees Borough Council of £94,210,546.

3. Approve a 2020/21 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£905,908) of £95,116,454.

4. Approve the 2020/21 budget and indicative 2020/24 MTFP as outlined in paragraphs 36-37 and the level of General Fund Balances set out in paragraphs 18-19.

Business Rate Relief System

5. Note the changes introduced in recent Government budgets and the Ministerial Statement of 27 January 2020.

Taxation

SBC

6. Approve the Council Tax for Stockton-on-Tees Borough Council prior to Parish, Fire and Police Precepts be increased by 3.9%, which includes the Government Levy of 2% in respect of Social Care i.e. to £1,650.61 at Band D (£1,100.41 at Band A).

Fire, Police & Parish

7. The Council note the Police precept of £14,870,633 which equates to a Council Tax of £260.54 at Band D (£173.69 at Band A).

8. The Council note the Fire precept of £4,499,317 which equates to a Council Tax of £78.83 at Band D (£52.55 at Band A).

9. The Council note the Parish precepts as set out in paragraph 65 of the budget report.

Capital

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

Organisational and HR

11. Council approve the Pay Policy Statement at **Appendix C**.

Members Allowances

12. Approve that Members allowances are frozen for 2020/21. This will mean that these allowances have been frozen since 2013/14.

Council Tax - Statutory Requirements

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

14. Cabinet recommend to Council that the current Local Council Tax Support Scheme is retained for the financial year 2020/21 (see paragraph 68).

Capital Strategy

15. Approve the Capital Strategy as set out at **Appendix E** to the report, including the Flexible Use of Capital Receipts Policy and the MRP Strategy.

Treasury Management/Prudential Code

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

Investment Strategy

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

CABINET DECISIONS

18. Cabinet approve and note the Officer Appointments to outside bodies and governing bodies at **Appendix C(1)**.

DETAIL

1. The MTFP report for 2020/21 to 2023/24 is attached. The report outlines the Council Tax proposals and Budget for 2020/21 and the indicative MTFP for the next three years.

2. The report updates the position from that reported to Cabinet and Council in February 2019 and in particular reflects implications arising from the Spending Round 2019 and the Local Government Finance Settlement for 2020/21.

3. The Provisional and Final Financial Settlements have provided funding allocations for 2020/21 only. 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 2021/22 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.

5. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and setting its Council Tax, the Chief Finance Officer (Section 151 Officer) must report to it on the following matters:

   - The robustness of the estimates made for the purposes of the Council Tax requirement calculations
   - The adequacy of the proposed financial reserves

6. The Council is required to have due regard to this report when making decisions on the budget.

7. The report is attached at **Appendix H**.

COMMUNITY IMPACT IMPLICATIONS

8. 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.

CORPORATE PARENTING IMPLICATIONS

9. None

FINANCIAL IMPLICATIONS

10. To update the MTFP position for 2020/21 – 2023/24 and recommend the budget for 2020/21.

LEGAL IMPLICATIONS

11. None

RISK ASSESSMENT

12. This Medium Term Financial Plan Update Report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

13. N/A

BACKGROUND PAPERS

14. None

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MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2020/21

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 has presented. Between 2010/11 and 2019/20 Government funding reduced by £73m (or 60% in cash terms) whilst the 2020/21 Financial Settlement provided some additional funding it is uncertain whether this will continue.

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 and this continues.

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 October 2019. 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 up to 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, Invest to Save schemes and innovative changes to delivery models. We are continuing this approach and once again have frozen budgets and are developing the use of technology in considering how we provide services.

SECTION 2 – NATIONAL CHANGES

Queen’s Speech – December 2019

5. On 19 December 2019 the newly elected government set out policy/legislative proposals in a Queen’s Speech. These included a fundamental review of business rates and a restatement of the commitment to move to three-yearly revaluations beginning in 2021. An increase and extension to the retail discount relief was also proposed.

Funding Position

6. Members will recall that the Council are in the final year of a 4 year financial settlement from the Government/MHCLG. Previous reports have highlighted the significant uncertainty as we near the end of that settlement period with no replacement long term settlement in place.

7. On 4 September 2019 the Government set out the results of the 2019 Spending Round. It was announced that this would cover a one-year period (2020/21), setting out headline funding levels for government departments for that one year only. This outlined:

   a. The continuation of £0.4 billion Social Care Grant for adults and children’s services;

   b. The announcement of £1.5 billion additional money for Social Care – this is a grant of £1 billion and an extension of the ability to increase Council Tax by an additional 2%.

   c. Uprating the 2019/20 Settlement Funding Assessment in line with the small business non-domestic rating multiplier;

d. A core council tax referendum principle of up to 2%; an adult social care precept of 2% on top of the core principle and no referendum principles for parish councils and mayoral combined authorities;

e. Committing to retain the top-slice of the Revenue Support grant to fund New Homes Bonus in 2020/21 at £900 million;

f. Maintaining the existing improved Better Care Fund funding at 2019/20 levels, as well as rolling the £240 million which was allocated as Winter pressures grant this year into the improved Better Care Fund;

g. Continuing the Rural Services Delivery grant at £81million.

8. In October 2019 MHCLG announced a Technical Consultation on the Local Government Finance Settlement 2020/21. This document set out the proposed approach that MHCLG will take to the 2020/21 Settlement and the detail reflected the announcements in the Spending Round 2019.

9. On 20 December 2019 the Secretary of State announced the Provisional Local Government Finance Settlement. This broadly confirmed the announcements previously made in the Spending Round 2019 and the MHCLG Technical Consultation and provided information on the impact of the Settlement to individual authorities.

10. The Government has stated previously that it remains committed to reforming local government finance. However the Provisional Settlement provided no update on the progress of either the move to further business rates retention or the Review of Relative Needs and Resources (Fair Funding Review).

11. The one year spending round/financial settlement leaves uncertainty regarding the position from 2021 onwards. This makes financial planning across the duration of the MTFP very challenging.

Government Funding – Final Settlement

12. On 7 February 2020 the Government presented the Final Local Government Finance Settlement. There were no changes impacting on Stockton from those published in the Provisional Settlement. At the time of the publication of the report, Parliament had not voted on the Final Settlement.

SECTION 3 - FINANCIAL POSITION TO 31 DECEMBER 2019

GENERAL FUND

13. The following table details the projected budget outturn position for each directorate in 2019/20, based on information to 31 December 2019. The reasons for any significant movement 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 (Q3) £'000	Projected Variance Over/(Under) (Q3) £'000	Projected variance at Q2 Over/(Under) £'000	Movement between Q2 and Q3 £'000
Children's Services	36,540	39,272	2,732	2,461	271
Adults and Health	73,447	71,217	(2,230)	(1,782)	(448)
Community Services	29,070	30,398	1,328	1,469	(141)
Economic Growth & Development	8,246	8,227	(19)	0	(19)
Culture, Leisure and Events	9,194	9,204	10	15	(5)
Finance & Business Services	8,315	8,686	371	288	83
HR, Legal and Communications	5,113	4,953	(160)	(75)	(85)
Corporate Areas	1,224	512	(712)	(797)	85
Admin/Democratic Services & Xentrall	7,631	7,591	(40)	(25)	(15)
Total	**178,780**	**180,060**	**1,280**	**1,554**	**(274)**
Application of Underspend c/f from 2018/19		(485)	(485)	(485)	0
Revised Total	**178,780**	**179,575**	**795**	**1,069**	**(274)**

Children's Services

14. Evidence from the third quarter of the financial year confirms that the significant increase in the number of children in our care in the early months of the year has led to a large increase in projected expenditure on Children's Services, as reported at Quarters 1 and 2. A paper was appended to the Quarter 1 Report outlining the issues and challenges, together with the Council's response. Quarter 3 monitoring reinforces early evidence of the Council's response impacting positively on the costs of external residential placements. However, this improvement is partly offset by increases in costs of placements in other settings such as Fostering (particularly Connected Persons Foster Care) and Special Guardianship Payments. Overall, the projected overspend has increased from £2,461,000 to £2,732,000 between quarters. The position will continue to be closely monitored.

Adults and Health

15. The position evident at Quarters 1 and 2 of lower than anticipated activity and expenditure on care packages has continued into Quarter 3. In particular, the number of residential and nursing placements has reduced further. A significant programme of work is underway to support people in their own homes and prevent admission to long term care and the reduction in this area is evident in that we are starting to have an impact. Additional funding of £136,000 has been received from Health to support costs associated with Learning Disability clients being supported at home.

Community Services

16. The projected position has improved by £141,000 between quarters with a number of areas of the service contributing to this positive movement. The financial impact of reducing amounts of external work and income on Heating, Ventilation and Electrical Services (HVE); on Highways Services and on Catering/Cleaning was highlighted at Quarters 1 and 2. Reviews are underway to consider how to resolve these issues. There is also a pressure in respect of School Catering due to the increase in Academies undertaking alternative arrangements.

Other Directorates

17. No significant movements have been identified from the position reported at Quarter 2.

Overall Revenue Position/General Fund Balances

18. The Council aims to retain General Fund balances at a recommended level, currently £7,400,000. As reported to Cabinet previously, the position at year end 2018/19 exceeded the required amount by £485,000. This amount is available to be applied to partly offset the projected overspend in 2019/20.

19. Should the position highlighted in the paragraphs above materialise at the year-end then there will be a requirement to utilise balances of £795,000. This amount would be required to be addressed in the MTFP for 2020/21 to restore balances to the recommended level as set out in paragraph 27 below.

SECTION 4 - 2020/21 COUNCIL TAX LEVELS

Core Council Tax

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. As highlighted at paragraph 7, the Government have announced that the Council Tax Referendum Threshold will be 2% for 2020/21 and has assumed this level of increase in their spending power calculation. The current MTFP assumes a 1.9% increase in each year.

22. Given the financial pressures facing the Council over the medium term it is recommended that the Council increase the core Council Tax by 1.9% for 2019/20. The impact of the increase of 1.9% in 2020/21 would be £0.39 per week (Band A) and £0.58 per week (Band D).

Council Tax Levy for Social Care

23. 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. As set out in paragraph 7 above, the Government have announced that local authorities can again levy a precept of up to 2% for 2020/21 to support Social Care and have factored take up of this increase in their Core Spending Power assumptions.

24. Given the overall financial position and ongoing increases in care fees, national living wage, etc, it is recommended that the Council adopt the Government levy of 2%. The total increase of 3.9% in 2020/21 will be £0.79 per week (Band A) and £1.19 (Band D)

25. The Local Council Tax Support Scheme was introduced in 2013/14 and it is timely to review how this is operating and its impact. This review is now included in the Members Scrutiny Programme.

SECTION 5 - MEDIUM TERM FINANCIAL PLAN 2020 – 2024

Current Approved MTFP

26. The current approved position in February 2019 was as follows:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Budget Gap	3,695	3,706	3,828	3,126

Changes to current expenditure plans

27. There are a number of issues which will need to be factored into the 2020/21 budget and considered in the MTFP going forward and these are outlined below:

Funding the projected 2019/20 deficit – Current projections indicate in year overspending of £795,000, as set out in paragraph 13. Actions to mitigate this position are being taken but, should this overspending materialise at year end, it will require to be funded from general fund balances. Those balances will then require to be replenished in 2020/21.

Children in our Care – Recent reports have highlighted the considerable ongoing pressures on Children's Social Care, particularly relating to the costs of Children in Our Care which is an issue facing the majority of Local Authorities. As previously reported, significant work is ongoing which is starting to have a real impact on reducing costs, however given growth in numbers of Children in our Care this is really challenging and a pressure is still anticipated. The ongoing financial impact of these pressures has been re-assessed and incorporated into the MTFP.

Events in other towns – Cabinet is keen to support the development of events across the Borough, in particular in Thornaby, Billingham, Norton, Ingleby Barwick and Yarm. The needs and opportunities vary across the different towns and as a consequence the potential scale and costs of events will vary, however, additional resources will be required to support these new events

Funding for Town Centres – Funding of £30m was approved by Cabinet and Council in December 2018 for investment in the Borough's town centres. Drawdown of this funding was subject to the condition that the schemes are commercial and have an ongoing income stream to cover the borrowing costs. Consultations are being carried out in respect of all six of our Town Centres and it is likely that some investment will not be self-funding. It is therefore proposed that an additional allocation of £3m be earmarked in the MTFP to support the developments, with the actual drawdown of the funding for specific schemes approved by Cabinet.

Revenue costs for Town Centres – There is a significant amount of work involved to develop action plans and progress the work in relation to Town Centres following the consultation and it is suggested a small allocation be earmarked to build the capacity needed to support this work.

Overhead Allocation to Grant Funded Services – Despite a reduction in activity levels over recent years, the overhead allocations to Trading Services have not been recalculated.

Apprenticeship Programme – The Council has successfully launched an ambitious Apprenticeship Programme which has seen 40 apprentices appointed in this year. Due to the success of the programme, it is suggested that this continues and funding is required to support the ongoing investment.

Tees Active – The new state of the art facility in Ingleby Barwick is due for completion in summer 2020. This was delayed from earlier in the year and the impact on the business plan resulted in a pressure in 2020/21. There is also a small pressure across Tees Active in future years.

Rent Allowances/Housing Benefit – Previous reports have highlighted the increasing pressures on this budget area, linked to changes including the introduction of Universal Credit and levels of outstanding debt and this needs to be included in the plan.

Smarter Working Initiatives – The programme is well underway with a particular focus on using technology to support and modernise ways of working There are some additional costs associated with the programme which will support and enhance modern working methods and customer interaction.

Globe Borrowing Costs – Reports to Cabinet and Council in June 2019 approved the borrowing required to achieve completion of the Scheme. The borrowing costs require to be incorporated into the MTFP.

External income – Highways and Catering – Budget monitoring reports have highlighted the reducing levels of external income generated by these services. Whilst these services have been reviewed, in order to continue to deliver the services, additional resources are required.

Adults & Health – Adults & Health have been working towards delivering a savings target already assumed in the MTFP. The service have exceeded the savings target and this can be factored into the plan.

Shaping a Brighter Future (SBF) – Members will be aware of the commitment to the SBF programme and the costs of supporting this programme needs to be funded from mainstream budget.

Transformation Funding – The Council has managed change associated with savings extremely well over the past 10 years. One area that has assisted in this area is a transformation reserve which has front funded Invest to Save projects, invested in technology and supported exit payments. This reserve has been assessed and given the level of changing ongoing across the Council, it is suggested that this is increased by £1m.

Preston Hall and Museum – Preston Hall Museum and Grounds was subject to a review 4 years ago and a time-limited resource allocation was made to allow the integration of Park and Museum activity and to provide additional support for volunteers. The sum of £140,000 per annum was provided for a fixed term on the basis that the venue would begin to generate additional income to cover some or all of this cost in the long term. The aim now is to cover 50% of that income from a combination of the already agreed entry charges and additional income from shop sales. It is recommended that the residual £70,000 pressure is now provided for in the base budget.

Pay Award 2020/21 – The current MTFP assumes a pay award of 2% each year. It is suggested that the pay award provision for 2020/21 be increased to 2.75% to reflect the emerging position.

Collection Fund – The projected position on the Collection Fund for Business Rates and Council Tax is a net overall deficit of £198,000 (Stockton Share). A projected deficit of £655,000 (Stockton Share) in respect of Business Rates is partly offset by a projected surplus on Council Tax of £457,000. This will require to be funded in 2020/21.

28. A number of emerging issues for the MTFP over the longer term have also been identified:

Reform of Local Council Tax Support Scheme (LCTSS) – A scrutiny review of the Council's Scheme is being undertaken with the scheme being reviewed by the People Select Committee. Various options are being considered and should changes be introduced from 2021/22 then additional funding may be required.

Welfare Support & Housing – It had previously been anticipated that the demands on these services would reduce over time and this had been factored into the MTFP. This has not materialised however, and there is no indication that capacity can be released without a significant impact on the service provided. Additional funding would be required to continue these key services at current levels.

Smarter Working Accommodation– The MTFP update report in December referred to a report to Cabinet which received the findings of the People Scrutiny Committee and recommended further work be undertaken to explore opportunities for improved facilities. The report identified that the current outstanding maintenance is £25million over 25 years. Given the lack of Capital available, in order to address the issue it was suggested that we include £1million per year from 2021 onwards to coincide with the conclusion of the review.

A separate report on this agenda recommends to Cabinet that the preferred option is for two new build facilities. The business case is based on Prudential Borrowing with the report outlining that the facilities would be funded by either Prudential Borrowing or an alternative method of private sector funding with Council incurring lease costs. The indications are that this would result in a saving from the £1m, however it is suggested that until detailed design is completed and the final funding position is agreed by Cabinet, the £1m is incorporated into the plan to support this development. Whilst some costs may be incurred in 2020/21, 2021/22 and 2022/23, in relation to development and project management, it is not anticipated that the full cost would actually be required until 2023/24 until the scheme is in progress. This has therefore been reflected in the plan which means the pressure is lower in the earlier years than reported in December.

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

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Funding of the projected 2019/20 deficit	795	0	0	0
Children in our Care	1,475	2,249	1,728	1,757
Boroughwide – Additional Events	300	300	300	300
Investment in Town Centres	3,000	0	0	0
Town Centres (Revenue Costs)	300	300	300	300
Baseline realignment of Trading Services overheads	120	120	120	120
Apprenticeship Programme	380	400	420	440
Tees Active	285	85	85	85
Rent Allowances/Housing Benefit	375	375	375	375
Smarter Working Initiatives	250	250	250	250
Borrowing Costs (the Globe)	330	330	330	330
External income – Community Services	500	500	500	500
Adult & Health Services	(200)	(200)	(200)	(200)
Mainstream SBF funding	128	128	128	128
Transformation Funding	1,000	0	0	0
Preston Hall	70	70	70	70
Pay Award 20/21 2.75%	895	895	895	895
Collection Fund	198	0	0	0
Reform of Local Council Tax Support Scheme	0	1,000	1,000	1,000
Welfare Reform/Back on Track	0	336	336	336
Housing Service	0	250	250	250
Accommodation Costs	250	500	500	1,000
Pressures	**10,451**	**7,888**	**7,387**	**7,936**

Income and Resources

30. The following changes to income and resources can be made:

Employer Pension Contributions – The draft results of the triennial actuarial review of the Teesside Local Government Pension Scheme have recently been announced. The expected impact for Stockton is a reduction in the employer contribution rate for the three years 2020/21 to 2022/23, leading to a reduction in employer contributions.

Unallocated Better Care Fund (BCF) – An element of BCF Funding is currently unallocated. It is proposed that this be utilised to support the MTFP.

Business Rates and Council Tax Base – Projections of business rates income and Council Tax Base growth have been updated and additional income can be brought into the MTFP.

Treasury Management (AMRA) – The Council's income from investments and costs of borrowing have been reassessed and the impact applied to the MTFP.

31. Recent announcements, including those in the Provisional and Final Local Government Finance Settlements have an impact on the level of resources available in 2020/21. The impact is set out below.

Social Care Grant (Adults and Children's) – The continuation of the 2019/20 grant into 2020/21 has been confirmed, together with announcement of a new grant for 2020/21.

Revenue Support Grant (RSG) – The current approved MTFP assumes that RSG will continue reducing when the four year funding settlement ends in March 2020. The recently announced one-year settlement for 2020/21 confirms that this decline will not now happen and therefore that additional RSG funding can be applied to the Medium Term Financial Plan.

New Homes Bonus – The future of this significant funding stream has been under review for some time. The Provisional/Final Local Government Finance Settlements confirm that New Homes Bonus will continue for a further year in its current form but that its future remains under review in the longer term. The impact for Stockton is that the Council can now budget for additional income in 2020/21, relating to the level of new homes in 2019/20.

Additional Better Care Fund (Inflationary Uplift) – A 3.4% real terms increase in the funding provided by NHS Bodies has been announced for 2020/21. The position post 2021 remains unclear.

Winter Pressures Funding – Members will be aware we have received funding to support winter pressures. This has now been included in the Better Care Fund and can therefore be incorporated into the plan.

32. This would mean that the additional resources outlined overleaf would be available:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Employer Pension Contributions	(1,647)	(1,647)	(1,647)	(1,647)
Unallocated Better Care Fund	(1,000)	(1,000)	(1,000)	(1,000)
Business Rates Income	(860)	(860)	(860)	(860)
Council Tax Base Increase	(443)	(573)	(750)	(979)
Treasury Management (AMRA)	(382)	32	(507)	(742)
	(4,332)	**(4,048)**	**(4,764)**	**(5,228)**
Government Funding - Sept 2019 Spending Round				
Social Care Grant – Continuation of 2019/20 Grant	(1,444)	0	0	0
Social Care Grant - New 2020/21	(3,424)	0	0	0
Revenue Support Grant (RSG)	(777)	0	0	0
New Homes Bonus	(848)	0	0	0
Additional BCF Funding	(241)	0	0	0
Winter Pressures grant (rolled into iBCF)	(845)	0	0	0
Additional Improved BCF extended to 20/21	(1,193)	0	0	0
	(8,772)	**0**	**0**	**0**
Total	**(13,104)**	**(4,048)**	**(4,764)**	**(5,228)**

Summary Position

33. A summary of the position is outlined below:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Approved Budget Position	3,695	3,706	3,828	3,126
Expenditure Pressures	10,451	7,888	7,387	7,936
Income and Resources	(13,104)	(4,048)	(4,764)	(5,228)
Budget Gap	**1,042**	**7,546**	**6,451**	**5,834**

34. The Secretary of State has confirmed that an Adult Social Care Precept of up to 2% will be available in 2020/21 and Government Spending Power figures assume that this precept is applied. Assuming this is implemented, as outlined in paragraph 24, the position would be as below:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Budget Gap	**1,042**	**7,546**	**6,451**	**5,834**
Adult Social Care Precept	(1,814)	(1,871)	(1,929)	(1,991)
Updated Gap	**(772)**	**5,675**	**4,522**	**3,843**

35. Government funding allocations 2021/22 onwards – As highlighted in paragraphs 6-11 above, there is considerable uncertainty regarding government funding from 2021/22. That year will now see the introduction of the Fair Funding Review, a move to greater Business Rates Retention and a Business Rates re-set and revaluation. All of these bring a high level of uncertainty to future funding projections. Given recent Government announcements, it is unlikely that none of this funding continues, however given all of the uncertainty, there is no

way of predicting the future funding. It is therefore proposed and considered prudent for a working hypothesis that 50% of the additional funding to be received in the one-year settlement for 2020/21 continues into 2021/22 and beyond.

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Updated Gap	**(772)**	**5,675**	**4,522**	**3,843**
Government Funding 2021/22 Onwards (Estimate)		(4,386)	(4,386)	(4,386)
Balance Carried Forward	772	(772)		
Revised Budget Position	**0**	**517**	**136**	**(543)**

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

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Income				
RSG	(5,076)	(3,899)	(3,096)	(2,277)
NNDR (incl s31 grants)	(45,797)	(47,249)	(48,162)	(49,088)
New Homes Bonus	(2,933)	(2,752)	(2,649)	(2,649)
Better Care Fund (incl Pooled Budget)	(17,401)	(16,261)	(16,261)	(16,261)
Adult & Children's Social Care Grant	(4,868)	(2,434)	(2,434)	(2,434)
Public Health	(13,544)	(13,544)	(13,544)	(13,544)
Council Tax	(94,668)	(97,204)	(100,281)	(103,443)
Previously Approved Release Of Reserves	(2,634)	(750)	0	0
Balance Carried Forward	772	(772)	0	0
Total Income	**(186,149)**	**(184,865)**	**(186,427)**	**(189,696)**
Expenditure				
Adults & Health	74,041	74,041	74,041	74,041
Children's Services	36,000	35,543	35,022	35,051
Community Services	28,975	28,935	28,935	28,935
Culture, Leisure & Events	9,258	9,008	9,008	9,008
Economic Growth & Development	8,321	8,571	8,571	8,571
Admin, Democratic Services & Xentrall	7,492	8,055	8,149	8,388
Finance & Business Services	8,719	9,055	9,055	9,055
HR, Legal & Communications	4,955	4,855	4,855	4,855
Corporate Areas incl Pay Award Provision	8,388	7,319	8,927	11,249
Total Expenditure	**186,149**	**185,382**	**186,563**	**189,153**
Revised Budget Position	**0**	**517**	**136**	**(543)**

37. The surplus in 2020/21 can be held to offset the projected pressures across the period of the MTFP. The position will be reassessed once there is clarity of future funding for local government.

SECTION 6 - CURRENT CAPITAL PROGRAMME

38. The current Capital Programme is set out at **Appendix A** and summarised in the table below:

Capital Programme December 2019

CAPITAL PROGRAMME Up to 2022	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
Schools Capital	41,147	0	41,147
Housing, Regeneration & Town Centres Schemes	63,800	29,940	93,740
Transportation	7,919	955	8,873
Other Schemes	27,255	624	27,879
Total Approved Capital MTFP	**140,121**	**31,519**	**171,639**

Additions to the Programme

39. Funding of £9,750,000 in respect of TVCA Indigenous Growth Fund has been added to the programme. An element has been allocated to fund employment land acquisition at Durham Lane and the remaining is included in the programme with the allocation to be determined following further reports to Cabinet.

40. A separate report is presented to Cabinet in respect of the future plans for Stockton Town Centre. This outlines the proposed use of £20m from TVCA Investment Fund and the programme has been updated to reflect this position.

41. A number of schemes funded by developer contributions (Section 278) have been added to the programme.

    - £173,000 in respect of Crathorne Interchange Footpath Linkages and Crossroads Roundabout Design and £170,000 in respect of A67/Crathorne Junction Works, fully funded via Developer have been added to the Capital Programme.

    - £267,000 in respect of the Highway works for the Housing Development South of Kirklevington, fully funded via Developer has been added to the Capital Programme.

    - £112,000 towards the provision of Everingham Way Cycleway has been added to the Capital Programme.

42. The 2019/20 Building Maintenance Programme has been increased by £202,000 to create a Conference Suite in Municipal Buildings, funded by revenue contributions to capital and the report to Cabinet in December outlined additional spend in relation to the Crematorium and this has now been incorporated into the plan.

SECTION 7 - BUSINESS RATE RELIEF SCHEME AND ATTENDANCE AT COURT

43. Recent changes to Business Rates Reliefs are summarised below:

Rural Rate Relief

44. The 2016 Autumn Statement confirmed the doubling of rural rate relief from 50% to 100% from 1st April 2017. Local authorities are expected to continue to use their local discount powers to grant 100% rural rate relief to eligible ratepayers.

    Local authorities will be compensated in full for their loss of income as a result of this measure. This compensation will be paid by section 31 grant and calculated on the basis of individual council NNDR returns under the rates retention scheme.

Retail Relief

45. From 1 April 2019 a new retail relief scheme was introduced for retail properties with a rateable value of below £51,000. Under the scheme, eligible ratepayers received a one third discount of their daily chargeable amount. In a written Ministerial Statement on 27th January 2020 the Government announced that it will increase the retail discount from one-third to 50 per cent for eligible retail businesses occupying a property with a rateable value less than £51,000.The relief will be extended to include cinemas and music venues with a rateable value of less than £51,000.

Local Newspapers office space discount

46. From April 2020 the government has extended the duration of the £1500 business rates discount for office space occupied by local newspapers. The extension will apply for an additional 5 years until 31st March 2025.

Pub Relief

47. From April 2020 the government has introduced an additional discount for pubs. This will provide a £1,000 discount to eligible pubs with a rateable value of less than £100,000 in 2020/21 and is in addition to the retail discount.

Revaluation Relief

48. The transitional relief for small businesses introduced from April 2017 for those ratepayers facing large increases as a result of the loss of small business or rural rate relief due to revaluation will continue.

The Local Discretionary Revaluation Relief scheme will also continue, for those businesses facing large increases as a result of revaluation. Funding of £241,000 was awarded in 2017/18, £117,000 in 2018/19 and £48,000 in 2019/20. For 2020/21 (the final year) funding of £7,000 has been approved and a revised scheme is currently being developed.

Attendance at Court

49. Section 223 of the Local Government Act 1972 requires that those post holders who lay complaint, appear at Court, prosecute and defend in all matters relating to the collection and enforcement of Council Tax, Business Rates (NNDR) and the Business Improvement District levy need authorisation from Council.

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

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

SECTION 8 – PAY POLICY AND MEMBERS ALLOWANCES

51. The Council agreed a new pay spine with the Trade Unions last year and this was implemented from 1 April 2019. The new pay and grading structure delivered the second year of the 2-year nationally negotiated pay award.

At this time the 2020 national pay award has not been agreed and therefore 2019 pay rates have been used for the purposes of the Pay Policy Statement.

The new grading structure now begins at scp 3 (formerly scp 10) Grade C, which currently is £9.36 per hour (pay award pending from 1st April 2020). This is well above the current National Living Wage which will be £8.72 per hour from 1 April 2020 and still above the Foundation ("Real") Living Wage which was increased to £9.30 per hour on 11 November 2019.

The Council is therefore still achieving its stated objective of paying the Foundation Living Wage for Council employees and is in keeping with the Council's commitment to The Great Jobs Agenda.

The Council's Pay Policy Statement is attached at **Appendix C**.

The Council's median hourly rate and pay multiple, both calculated as at 31 December 2019 are as follows:

- Median Hourly rate is £11.64 (£11.61 at 31 December 2018); and
- Pay multiple is 6.65 (7.67 at 31 December 2018).

Both the median hourly rate and pay multiple have positively changed predominantly due to the introduction of the Council's new pay and grading structure in April 2019. In particular the pay multiple is well under the Council's target of 10.

<u>Apprentices</u>

52. The Council supported an ambitious Apprentice recruitment programme in 2019 resulting in a cohort of 40 new apprentices joining the Council in a variety of job roles across the Council's Directorates. It is intended to similarly run a further programme this year which will continue to support succession planning, skill gaps and vacancies within hard to recruit job roles.

The Council continues to pay its apprentices at least the national minimum wage for age being currently at £4.35 per hour for 16 – 18 year olds rising to £8.21 per hour for those aged 25 or over rather than the national apprentice rate of £3.90 per hour. For apprentices undertaking a Level 4 apprenticeship or above the Council currently pays a minimum of Grade C being £9.36 per hour.

<u>Headcount and FTE</u>

53. Headcount and FTE as at 31 December 2019 compared to 31st March 2016, 2017, 2018 & 2019 is:

	31 Dec 2019	31 March 2019	31 Dec 2018	31 March 2018	31 March 2017	31 March 2016
Headcount	3,226	3,211	3195	3095	3183	3301
FTE	2,531	2,515	2498	2414	2458	2550

54. Notwithstanding the very 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 9 years. The headcount has reduced by 1,034 (24%) from 4,260 as at 31 March 2011 to 3,226 as at 31 December 2019. Total FTE has reduced by 611 (19.5%) from 3,142 as at 31 March 2011 to 2,531 at 31 December 2019.

55. The Council will continue to manage any service changes, including minimising redundancies, sensitively, proactively and in accordance with our policies.

56. We continue to maintain strong relationships with the Trade Unions, including regular update meetings being held with the Trade Unions and the Managing Director and Director of Human Resources, Legal & Communications. We will continue to provide opportunities for employees to put forward ideas and suggestions for service changes and improvements and that employees are supported through change.

Officer Appointments to Outside Bodies and Governing Bodies

57. 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.

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

59. 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.

60. It is recommended that:

- Council approve the Pay Policy Statement at **Appendix C**.
- Cabinet approve and note the Officer Appointments to Outside bodies and governing bodies at **Appendix C(1)**.

Members Allowances

61. Members will be aware that allowances have been frozen since 2013/14 and it is proposed that this continues for 2020/21 to support the Council's difficult financial position.

SECTION 9 – PRECEPT LEVELS

Stockton Precept

62. Stockton's current tax level for 2019/20 at Band A (the biggest percentage of its properties) is £1,059.10 (£20.31 per week).

	Band A £	Band D £
2019/20	1,059.10	1,588.65
2020/21	1,100.41	1,650.61

Police Precept

63. The Police & Crime Commissioner has indicated a Council Tax Increase of £10.00 per year at Band D, equivalent to 3.99%.

	Band A £	Band D £
2019/20	167.03	250.54
2020/21	173.69	260.54

Fire Authority

64. A report to the Fire Authority on 14 February 2020 outlines a proposed Council Tax increase of 1.9%.

	Band A £	Band D £
2019/20	51.57	77.36
2020/21	52.55	78.83

Parishes

65. Details of the Parish precepts are given below:

Parish	2019/20 Precept £	2020/21 Precept £	Precept Increase/ Decrease £	Precept Increase/ Decrease %	Band D Increase/ Decrease %	LCTS Grant Both Years £	2020/21 TOTAL £
Aislaby & Newsham	0	0	0	0.00%	0.00%	0	0
Carlton	5,000	7,000	2,000	40.00%	35.66%	22	7,022
Castlelevington / Kirklevington	13,500	18,000	4,500	33.33%	19.41%	348	18,348
Egglescliffe & Eaglescliffe	56,477	55,925	(552)	-0.98%	-1.73%	5,446	61,371
Elton	0	0	0	0.00%	0.00%	0	0
Wynyard	25,604	40,000	14,396	56.23%	44.70%	0	40,000
Grindon & Thorpe Thewles	9,518	9,518	0	0.00%	-2.79%	0	9,518
Hilton	2,311	2,421	110	4.76%	6.13%	129	2,550
Ingleby Barwick	180,300	180,300	0	0.00%	-1.54%	3,445	183,745
Long Newton	11,764	11,764	0	0.00%	-1.07%	236	12,000
Maltby	3,504	3,504	0	0.00%	-4.89%	138	3,642
Preston	5,029	5,279	250	4.97%	2.98%	471	5,750
Redmarshall	3,900	4,100	200	5.13%	5.32%	118	4,218
Stillington & Whitton	8,957	9,157	200	2.23%	2.02%	1,243	10,400
Thornaby	146,771	160,861	14,090	9.60%	7.20%	36,050	196,911
Wolviston	12,371	12,754	383	3.09%	2.18%	533	13,287
Yarm	124,358	117,859	(6,499)	-5.23%	-5.48%	6,141	124,000
Billingham	260,923	267,466	6,543	2.51%	2.36%	23,509	290,975
Total	**870,287**	**905,908**	**35,621**	**4.09%**	**2.32%**	**77,829**	**983,737**

Overall Tax Position

66. 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 £94,210,546 is given below:

Tax 2020/21			
	Current 2019/20 (Band A) £	Proposed 2020/21 (Band A) £	Increase %
Police	167.03	173.69	3.99
Fire	51.57	52.55	1.90
Stockton BC	1,059.10	1,100.41	3.90

Formal Tax Recommendations

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

Local Council Tax Support Scheme

68. The Local Council Tax Support Scheme (LCTSS) was introduced in 2013/14 and it is now timely to review how this is operating and its impact. A scrutiny review of the Council's Scheme is being undertaken with the scheme being reviewed by the People Select Committee. The review will assess the current Council Tax collection rates for working age customers in receipt of Local Council Tax Support and consider the impact of any changes to the scheme on Council finances. Various options are being considered with a possibility that additional funding may be required. Proposals for change will be consulted on during 2020/21 with a view to implementing the changes from April 2021. For 2020/21 it is recommended that the existing scheme continues while the review takes place.

SECTION 10 – CAPITAL STRATEGY

69. The Capital Strategy required to be approved under the relevant code, including the Flexible Use of Capital Receipts Policy and the MRP Policy, is attached at **Appendix E**.

SECTION 11 - TREASURY MANAGEMENT STRATEGY

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

SECTION 12 – INVESTMENT STRATEGY

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

Appendix A

Capital Programme – December 2019

CAPITAL PROGRAMME Up to 2022	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure on Capital programme to date
SCHOOL CAPITAL				
School Investment Programme	41,146,760	0	41,146,760	8,856,806
SCHOOLS CAPITAL	**41,146,760**	**0**	**41,146,760**	**8,856,806**
HOUSING REGENERATION & TOWN CENTRES SCHEMES				
Housing Regeneration	1,976,162	189,773	2,165,935	291,270
Stockton Town Centre Schemes	28,223,292	0	28,223,292	8,860,309
Reshaping Town Centres	30,000,000	0	30,000,000	22,337,040
Growth Fund	250,000	9,750,000	10,000,000	
TVCA Investment Plan	0	20,000,000	20,000,000	
Infrastructure Enhancements, Regeneration & Property Acquisitions	3,350,311	0	3,350,311	334,967
HOUSING, REGENERATION & TOWN CENTRES SCHEMES	**63,799,765**	**29,939,773**	**93,739,538**	**31,823,586**
TRANSPORTATION				
Local Transport Plans	5,063,697	59,000	5,122,697	3,035,378
Other Transport Schemes	2,279,276	153,450	2,432,726	306,170
Developer Agreements	575,530	742,506	1,318,036	732,972
TRANSPORTATION	**7,918,503**	**954,956**	**8,873,459**	**4,074,520**
OTHER SCHEMES				
Private Sector Housing	2,244,706	47,358	2,292,064	1,361,194
Building Management & Asset Review	1,030,903	210,000	1,240,903	259,437
Parks, Museums & Cemeteries	7,863,936	371,000	8,234,936	7,566,956
Energy Efficiency Schemes	340,000	0	340,000	0
Leisure Facility Ingleby Barwick	13,300,000	0	13,300,000	10,278,453
Other Schemes	2,475,548	(4,000)	2,471,548	897,178
OTHER SCHEMES	**27,255,093**	**624,358**	**27,879,451**	**20,363,218**
Total Approved Capital MTFP	**140,120,121**	**31,519,087**	**171,639,208**	**65,118,130**

Appendix B

CAPITAL PROGRAMME	Total
SCHOOL CAPITAL	
School Investment Programme	
Planned Maintenance	3,533,831
SEN Investment	
Ash Trees Academy	550,000
Myton Park Primary School	600,000
Northfield School	300,000
Egglescliffe School	109,000
Loose Furniture	224,542
	1,783,542
Early Years	
Barelyfields Children's Centre	280,900
Redhill Children's Centre	195,000
Early Years Capital Grant	590,264
Tilery Family Hub	473,000
	1,539,164
Secondary Expansion Programme	
Conyers Academy - New Build Hall	1,292,818
All Saints Academy - Expansion	3,180,000
Northfield School - Expansion	37,162
Our Lady & St Bedes School Expansion	5,392,499
Egglescliffe School - Sixth Form	1,020,725
Egglescliffe School - Partial Rebuild	9,379,275
	20,302,479
Rosebrook School	1,000
Healthy Pupils Capital Fund	127,165
Retained Future Investment Fund	13,859,579
	13,987,744
	41,146,760
HOUSING REGENERATION & TOWN CENTRES SCHEMES	
Housing Regeneration	
Victoria Estate Regeneration	1,255,935
Affordable Housing	910,000
	2,165,935
Stockton Town Centre	
Stockton Town Centre - Infrastructure Projects	311,670
Townscape Heritage	2,544,934
Globe Theatre Refurbishment	25,366,688
	28,223,292
Reshaping Town Centres	
Town Centre Developments	30,000,000
	30,000,000

Growth Fund	
Feasibility	250,000
Indigenous Growth Fund	9,750,000
	10,000,000
Business Growth (Incl enabling Infrastructure)	
Riverside Northshore Development	
Demolition	15,000,000
Relocation	5,000,000
	20,000,000
Other Regeneration Schemes	
Estate Shops	171,275
Infrastructure Enhancements & Property Acquisition	679,036
Glam Post Office Demolition	2,500,000
	3,350,311
	93,739,538
TRANSPORTATION	
LTP - Integrated Transport	1,143,971
LTP Structural Maintenance	
Structural Maintenance	1,390,566
Mandale Bridge	794,000
Seal Sands Road Bridge	0
Carriageway Re-surfacing	1,794,160
	3,978,726
Other transport schemes	
Preston Park Additional Car Parking	158,195
TVCA A689 Wynyard Feasibility	216,323
TVCA Fuji Film	1,000,000
LGF Schemes	109,820
Developer Agreements	1,318,036
A66 Yarm Road Cycleway	140,450
Event Security	100,000
Sandgate Shops	50,000
Eaglescliffe Station Western Access	657,938
	3,750,762
	8,873,459
OTHER SCHEMES	
Private Sector Housing	
Disabled Adaptations	2,021,684
Regional Loan Scheme	270,380
	2,292,064
Building Management & Asset Review	
Building Maintenance Programme	940,903
Stockton Town Hall Renovation	200,000
Travellers Site Maintenance	100,000
	1,240,903

Parks, Museums & Cemeteries	
Parks Improvement Programme	231,674
Cemeteries	214,262
Crematorium & Gardens of Remembrance	7,789,000
	8,234,936
Energy Efficiency Schemes	
District Heating Schemes	340,000
	340,000
Other Schemes	
Ware Street Development	70,208
Independent Living LD Bid	202,000
Joint Venture Investments	493,077
Vehicle Replacement Fund	1,426,263
Leisure Facility Ingleby Barwick	13,300,000
Community Centre Support	50,000
22 Sandown Road - Refurbishment Works	230,000
	15,771,548
Total Approved Capital MTFP	**171,639,208**

CAPITAL PROGRAMME	**TOTAL**
Government Support	86,150,442
Earmarked Resources / Receipts	6,798,478
Earmarked Housing Regeneration Receipts	175,913
Prudential Borrowing	64,439,120
Other Contributions	3,276,306
Corporate One-Off Resources	10,798,949
Total Approved Funding Capital MTFP	**171,639,208**

Appendix C

Stockton on Tees

Borough Council

Pay Policy Statement

2020/21

CONTENTS

Appendix 1 Pay and Grading Structure 2019/20

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 - Managing Director.

Monitoring Officer – Director of HR, Legal & Communications.

Section 151 Officer –Director of Finance & Business Services.

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	Managing 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 as applicable.

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 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 Chief Officers are as follows:

Job Title	Grade
Managing Director	MD
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 2

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 (Information & Improvement Services)	Assistant Director Level 2
Assistant Director (Administration, Democratic & Electoral Services)	Assistant Director Level 2

5.2 As the 2020 pay award has not been agreed, the salaries relating to the above grades from 1 April 2019 are:

Grade	**Salary**
Managing Director	£149,500 (from 1 May 2019)
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
Assistant Director – Level 3	£80,129

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 once they are known.

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 once it is known.

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

9.1 The Council reaffirmed 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 is paid £9.36 per hour which exceeds the current Real Living Wage hourly rate. This also exceeds the Living Wage which was increased to £9.30 with effect from 1 November 2019. The pay award for 1 April 2020 is yet to be agreed.

9.2 The Council has also agreed that apprentices, undertaking level 1, 2 and 3 apprenticeships, will be paid the National Living Wage for age. From 1 April 2019 these started at £4.35 per hour for 16 to 18 year olds, rising to £8.21 for those who are aged 25 and over. For those apprentices undertaking a level 4 apprenticeship or above they will be paid a minimum of grade C which is currently £9.36 per hour.

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 (Managing Director) 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 £11.64 as at 31 December 2019 (£11.61 at 31 December 2018) and the Pay Multiple is 6.65 as at 31 December 2019 (7.67 at 31 December 2018). This is an improvement of 1.02 and means that the pay multiple is well within the stated aim of less than 10.

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 March, and information related to the public sector equality duty no later than 30 June.

Appendix C(1)

Body	Role	Officer
Spark of Genius NE LLP	Board Member	Garry Cummings Director of Finance and Business Services, Martin Gray, Director of Children Services
Stockton Borough Holding Company Limited and Stockton Hotels Company Limited	Director Company Secretary	Richard McGuckin, Director of Economic Growth and Development Service, Chris Renahan, Economic Growth Manager Tony Montague, Deputy Chief Financial Officer Jill Douglas (Winship), HR and Legal Services Manager Ged Morton, Chief Solicitor
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	Co-opted Committee member	No current representation but intending to replace
Bishopton Management Board	Governor	Sharon Stevens, Attendance Officer
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	Jamie McCann, Director of Community Services
Tees Valley LEP Area ESI Funds Local Sub-Committee	Board Member	Julie Danks, Managing Director
Stockton BID Company limited	Board Member	Julie Danks, Managing Director

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 18th December, 2019.

Tax Base approved under the Scheme of Delegation on 18th December, 2019.

a) the amount calculated by the Council in accordance with Section 31B, as its Council Tax Base for the year: **57,076.2**

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	100.81
Carlton	364.41
Castle Leavington / Kirklevington	842.99
Egglescliffe & Eaglescliffe	3,182.12
Elton	135.09
Grindon & Thorpe Thewles	336.80
Hilton	208.68
Ingleby Barwick	7,827.38
Long Newton	343.19
Maltby	234.03
Preston	611.31
Redmarshall	151.21
Stillington & Whitton	362.74
Thornaby	5,839.39
Wolviston	393.79
Wynyard	1,518.16
Yarm	3,467.64
Billingham	8,951.56

2. The amounts for the year that were approved by the Council on 26th February 2020 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: **£394,311,740.**

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: **£299,195,286.**

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: **£95,116,454.**

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 average Tax at Band D, including the Parish Precepts.

the basic amount of its Council Tax for the year (including Parish precepts); **£1,666.48.**

e) The aggregate amount of all special items referred to in Section 34(1) of the Act: **£905,908.**

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: **£1,650.61.**

Stockton-On-Tees Borough's Basic Tax.

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

3. a) Parish Precepts are:

Part of the Council's Area	**2020/21 Precept**	**Band D Equivalent**
	£	**£**
Aislaby & Newsham	0	0.00
Carlton	7,000	19.21
Castle Leavington / Kirklevington	18,000	21.35
Egglescliffe & Eaglescliffe	55,925	17.57
Elton	0	0.00
Grindon & Thorpe Thewles	9,518	28.26
Hilton	2,421	11.60
Ingleby Barwick	180,300	23.03
Long Newton	11,764	34.28
Maltby	3,504	14.97
Preston	5,279	8.64
Redmarshall	4,100	27.11
Stillington & Whitton	9,157	25.24
Thornaby	160,861	27.55
Wolviston	12,754	32.39
Wynyard	40,000	26.35
Yarm	117,859	33.99
Billingham	267,466	29.88
	905,908	

b) Parish Funding Allocations are:

Part of the Council's Area	**2020/21 Funding Allocation**
	£
Aislaby & Newsham	0
Carlton	22
Castle Leavington / 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 **£14,870,633** 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	173.69
B	202.64
C	231.59
D	260.54
E	318.44
F	376.34
G	434.23
H	521.08

5. Cleveland Fire Authority has stated the sum of **£4,499,317** 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	52.55
B	61.31
C	70.07
D	78.83
E	96.35
F	113.87
G	131.38
H	157.66

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 2020/21 is 4.0%.

E. Members are asked to Note that the Council's basic amount of Council Tax for 2020/21 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
2020/21

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	12.81	14.94	17.08	19.21	23.48	27.75	32.02	38.42
3	Castle Leavington / Kirklevington	14.23	16.61	18.98	21.35	26.09	30.84	35.58	42.70
4	Egglescliffe	11.71	13.67	15.62	17.57	21.47	25.38	29.28	35.14
5	Elton	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6	Grindon	18.84	21.98	25.12	28.26	34.54	40.82	47.10	56.52
7	Hilton	7.73	9.02	10.31	11.60	14.18	16.76	19.33	23.20
8	Ingleby Barwick	15.35	17.91	20.47	23.03	28.15	33.27	38.38	46.06
9	Long Newton	22.85	26.66	30.47	34.28	41.90	49.52	57.13	68.56
10	Maltby	9.98	11.64	13.31	14.97	18.30	21.62	24.95	29.94
11	Preston	5.76	6.72	7.68	8.64	10.56	12.48	14.40	17.28
12	Redmarshall	18.07	21.09	24.10	27.11	33.13	39.16	45.18	54.22
13	Stillington & Whitton	16.83	19.63	22.44	25.24	30.85	36.46	42.07	50.48
14	Thornaby	18.37	21.43	24.49	27.55	33.67	39.79	45.92	55.10
15	Wolviston	21.59	25.19	28.79	32.39	39.59	46.79	53.98	64.78
16	Wynyard	17.57	20.49	23.42	26.35	32.21	38.06	43.92	52.70
17	Yarm	22.66	26.44	30.21	33.99	41.54	49.10	56.65	67.98
18	Billingham	19.92	23.24	26.56	29.88	36.52	43.16	49.80	59.76

Appendix D(2)

Council Tax - Borough and Parish Demands
2020/21

Item	Parish	Band							
		A	B	C	D	E	F	G	H
	Factor	6	7	8	9	11	13	15	18
		£	£	£	£	£	£	£	£
1	Aislaby and Newsham	1,100.41	1,283.81	1,467.21	1,650.61	2,017.41	2,384.22	2,751.02	3,301.22
2	Carlton	1,113.22	1,298.75	1,484.29	1,669.82	2,040.89	2,411.97	2,783.04	3,339.64
3	Castle Leavington / Kirklevington	1,114.64	1,300.42	1,486.19	1,671.96	2,043.50	2,415.06	2,786.60	3,343.92
4	Egglescliffe	1,112.12	1,297.48	1,482.83	1,668.18	2,038.88	2,409.60	2,780.30	3,336.36
5	Elton	1,100.41	1,283.81	1,467.21	1,650.61	2,017.41	2,384.22	2,751.02	3,301.22
6	Grindon & Thorpe Thewles	1,119.25	1,305.79	1,492.33	1,678.87	2,051.95	2,425.04	2,798.12	3,357.74
7	Hilton	1,108.14	1,292.83	1,477.52	1,662.21	2,031.59	2,400.98	2,770.35	3,324.42
8	Ingleby Barwick	1,115.76	1,301.72	1,487.68	1,673.64	2,045.56	2,417.49	2,789.40	3,347.28
9	Long Newton	1,123.26	1,310.47	1,497.68	1,684.89	2,059.31	2,433.74	2,808.15	3,369.78
10	Maltby	1,110.39	1,295.45	1,480.52	1,665.58	2,035.71	2,405.84	2,775.97	3,331.16
11	Preston	1,106.17	1,290.53	1,474.89	1,659.25	2,027.97	2,396.70	2,765.42	3,318.50
12	Redmarshall	1,118.48	1,304.90	1,491.31	1,677.72	2,050.54	2,423.38	2,796.20	3,355.44
13	Stillington & Whitton	1,117.24	1,303.44	1,489.65	1,675.85	2,048.26	2,420.68	2,793.09	3,351.70
14	Thornaby	1,118.78	1,305.24	1,491.70	1,678.16	2,051.08	2,424.01	2,796.94	3,356.32
15	Wolviston	1,122.00	1,309.00	1,496.00	1,683.00	2,057.00	2,431.01	2,805.00	3,366.00
16	Wynyard	1,117.98	1,304.30	1,490.63	1,676.96	2,049.62	2,422.28	2,794.94	3,353.92
17	Yarm	1,123.07	1,310.25	1,497.42	1,684.60	2,058.95	2,433.32	2,807.67	3,369.20
18	Billingham	1,120.33	1,307.05	1,493.77	1,680.49	2,053.93	2,427.38	2,800.82	3,360.98
19	Areas without Parish Councils	1,100.41	1,283.81	1,467.21	1,650.61	2,017.41	2,384.22	2,751.02	3,301.22

Appendix D(3)

Council Tax - Total Demand (Borough, Parishes, Police and Fire)
2020/21

Item	Parish	Band							
		A	B	C	D	E	F	G	H
	Factor	6	7	8	9	11	13	15	18
		£	£	£	£	£	£	£	£
1	Aislaby and Newsham	1,326.65	1,547.76	1,768.87	1,989.98	2,432.20	2,874.43	3,316.63	3,979.96
2	Carlton	1,339.46	1,562.70	1,785.95	2,009.19	2,455.68	2,902.18	3,348.65	4,018.38
3	Castle Leavington / Kirklevington	1,340.88	1,564.37	1,787.85	2,011.33	2,458.29	2,905.27	3,352.21	4,022.66
4	Egglescliffe	1,338.36	1,561.43	1,784.49	2,007.55	2,453.67	2,899.81	3,345.91	4,015.10
5	Elton	1,326.65	1,547.76	1,768.87	1,989.98	2,432.20	2,874.43	3,316.63	3,979.96
6	Grindon & Thorpe Thewles	1,345.49	1,569.74	1,793.99	2,018.24	2,466.74	2,915.25	3,363.73	4,036.48
7	Hilton	1,334.38	1,556.78	1,779.18	2,001.58	2,446.38	2,891.19	3,335.96	4,003.16
8	Ingleby Barwick	1,342.00	1,565.67	1,789.34	2,013.01	2,460.35	2,907.70	3,355.01	4,026.02
9	Long Newton	1,349.50	1,574.42	1,799.34	2,024.26	2,474.10	2,923.95	3,373.76	4,048.52
10	Maltby	1,336.63	1,559.40	1,782.18	2,004.95	2,450.50	2,896.05	3,341.58	4,009.90
11	Preston	1,332.41	1,554.48	1,776.55	1,998.62	2,442.76	2,886.91	3,331.03	3,997.24
12	Redmarshall	1,344.72	1,568.85	1,792.97	2,017.09	2,465.33	2,913.59	3,361.81	4,034.18
13	Stillington & Whitton	1,343.48	1,567.39	1,791.31	2,015.22	2,463.05	2,910.89	3,358.70	4,030.44
14	Thornaby	1,345.02	1,569.19	1,793.36	2,017.53	2,465.87	2,914.22	3,362.55	4,035.06
15	Wolviston	1,348.24	1,572.95	1,797.66	2,022.37	2,471.79	2,921.22	3,370.61	4,044.74
16	Wynyard	1,344.22	1568.25	1792.29	2,016.33	2,464.41	2912.49	3,360.55	4,032.66
17	Yarm	1,349.31	1,574.20	1,799.08	2,023.97	2,473.74	2,923.53	3,373.28	4,047.94
18	Billingham	1,346.57	1,571.00	1,795.43	2,019.86	2,468.72	2,917.59	3,366.43	4,039.72
19	Areas without Parish Councils	1,326.65	1,547.76	1,768.87	1,989.98	2,432.20	2,874.43	3,316.63	3,979.96
	Police Precept included - all areas	173.69	202.64	231.59	260.54	318.44	376.34	434.23	521.08
	Fire Precept included - all areas	52.55	61.31	70.07	78.83	96.35	113.87	131.38	157.66

Appendix E

CAPITAL STRATEGY REPORT 2020/21

Introduction

This capital strategy report gives 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.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as 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 2020/21, the Council is planning capital expenditure of £52.384m as summarised below:

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

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Schools Capital	7.890	8.810	12.218	8.738	9.503
Housing Regeneration & Town Centres	18.685	37.738	33.580	10.543	7.650
Transportation	6.954	6.129	2.346	0	0
Other Schemes	11.746	14.770	4.240	0.089	0
TOTAL	**45.275**	**67.447**	**52.384**	**19.370**	**17.153**

The main General Fund capital projects in 2020/21 include the Globe Theatre Refurbishment £13.636m School Capital Programme £12.218m, Town Centre Developments £6m and TVCA Business Growth £7.665m. The Council at the moment has no plans to incur capital expenditure on investments.

Governance: All capital projects are fully appraised and Cabinet approval is required before a project or programme 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. The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Capital receipts	0.754	3.551	4.024	0.962	0
Capital grants	12.515	21.793	26.152	18.141	16.930
Capital contributions	6.699	2.158	0.788	0	0
Revenue	1.260	5.060	1.966	0.267	0.223
Borrowing	24.047	34.885	19.454	0	0
TOTAL	**45.275**	**67.447**	**52.384**	**19.370**	**17.153**

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

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Own resources	0.676	0.964	1.362	1.574	1.615

Ministry of Housing Communities and Local Government (MHCLG) Guidance requires the Council 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 £17.5m during 2020/21. 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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
General Fund services	136.1	168.7	186.2	184.1	181.9
Capital investments	0.0	0.0	0.0	0.0	0.0
TOTAL CFR	**136.1**	**168.7**	**186.2**	**184.1**	**181.9**

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. The Council is currently also permitted to spend capital receipts on service transformation projects until 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £3.633m of capital receipts and loan repayments in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Asset sales	0.631	4.450	3.547	3.491	0.350
Loans repaid	0.006	0.086	0.086	0.086	0.086
TOTAL	**0.637**	**4.536**	**3.633**	**3.577**	**0.436**

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 until 2022/23.

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 2019 the Council had £76.9m debt and £29.8m 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 seeks 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 are shown below, compared with the capital financing requirement (see above).

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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Debt (incl. PFI & leases)	53.8	104.4	138.7	153.3	163.7
Capital Financing Requirement	136.1	168.7	186.2	184.1	181.9

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from 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 £84.4m at 31st March 2020 and is forecast to rise to £145.4m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Outstanding borrowing	47.3	99.2	134.1	149.2	160.2
Liability benchmark	28.8	84.4	119.3	134.4	145.4

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 £m

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit	188.7	206.2	204.1	201.9
Operational boundary	168.7	186.2	184.1	181.9

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

Treasury 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 more widely, including in bonds, shares and 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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Near-term investments	13.6	10.0	10.0	10.0	10.0
Long-term investments	14.8	14.8	14.8	14.8	14.8
TOTAL	**28.4**	**24.8**	**24.8**	**24.8**	**24.8**

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

Risk management: The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

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 report on treasury management activity are presented to the Audit and Governance Committee for scrutinising treasury management decisions.

<u>Investments for Service Purposes</u>

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.

<u>Commercial Activities</u>

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 as at 31st March 2019 were valued at £18.7m across a range of properties such as estate shops, garages, ground leases and the Hotel.

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.

<u>Liabilities</u>

In addition to debt detailed in Table 6, the Council is committed to making future payments to cover its pension fund deficit valued at £227.2m. 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 55 of the 2018/19 Statement of Accounts. Pension information is covered in pages 51 – 54 of the same document.

<u>Revenue Budget Implications</u>

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

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£m)	2.5	3.3	4.7	5.0	4.9
Proportion of net revenue stream	1.1%	2.3%	3.1%	3.3%	3.2%

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 employs professionally qualified and experienced staff in senior positions The Council pays for staff to study towards relevant professional qualifications including CIPFA, they undertake 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 to develop and implement major schemes. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. As an example the Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

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 2020/21

Where the Council 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 Council 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 Council 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.

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 2020/21 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 2020/21

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 but there is a requirement to update Treasury Management Practice Number 5 due to a change in responsibilities following the appointment of the Deputy Chief Executive as the new Managing Director. The updated practice is included at **Schedule 3** for approval.

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

Arlingclose Stockton's Treasury Management advisors have provided us with the following commentary on the external environment.

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 2020/21.
UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.
Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

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

Local Context

On 31st December 2019, the Authority held £76.9m of borrowing and £29.8m of treasury 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

	31.3.19 Actual £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
General Fund CFR	136.1	168.7	186.2	184.1	181.9
Less: Other debt liabilities	(6.6)	(5.2)	(4.7)	(4.1)	(3.6)
Loans CFR	**129.5**	**163.4**	**181.5**	**180.0**	**178.4**
Less: External borrowing	(47.3)	(99.2)	(134.1)	(149.2)	(160.2)
Internal (over) borrowing	**82.3**	**64.3**	**47.5**	**30.8**	**18.2**
Less: Usable reserves	(108.0)	(86.6)	(70.4)	(54.4)	(42.7)
Less: Working capital	(2.7)	(2.5)	(1.9)	(1.1)	(0.3)
(Investments) / New borrowing	**(28.4)**	**(24.8)**	**(24.8)**	**(24.8)**	**(24.8)**

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 limited investments and will potentially be required to increase borrowing up to a total of £178.3m 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 across the periods shown.

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

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
Loans CFR	129.5	163.4	181.5	180.0	178.4
Less: Usable reserves	(108.0)	(86.6)	(70.4)	(54.4)	(42.7)
Less: Working capital	(2.7)	(2.5)	(1.9)	(1.1)	(0.3)
Plus: Minimum investments	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	**28.8**	**84.4**	**119.3**	**134.4**	**145.4**

Borrowing Strategy

The Authority currently holds £76.9m of loans, an increase of £30m 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 a maximum of £134.1m in 2020/21. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £206.2m.

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 will be 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 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised part of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a more expensive option. The Authority will now look to explore options for long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Authority may arrange forward starting loans, 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

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 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.

LOBOs: The Authority holds £37m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate 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. Although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, 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 12 months, the Authority's investment balance has ranged between £65m and £30m, but these levels 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 2020/21, 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	£2,500,000 2 years	£5,000,000 5 years	£5,000,000 50 years	£2,500,000 20 years	£2,500,000 10 years
AA+	£2,500,000 2 years	£5,000,000 5 years	£5,000,000 25 years	£2,500,000 10 years	£2,500,000 5 years
AA	£2,500,000 2 years	£5,000,000 2 years	£5,000,000 15 years	£2,500,000 5 years	£2,500,000 5 years
AA-	£2,500,000 2 years	£5,000,000 2 years	£5,000,000 10 years	£2,500,000 4 years	£2,500,000 5 years
A+	£2,500,000 2 years	£5,000,000 2 years	£2,500,000 5 years	£2,500,000 3 years	£2,500,000 3 years
A	£2,500,000 1 Year	£5,000,000 1 year	£2,500,000 5 years	£2,500,000 2 years	£2,500,000 3 years
A-	£2,500,000 6 months	£5,000,000 1 Year	£2,500,000 5 years	£2,500,000 1 Year	£2,500,000 3 years
None	n/a	n/a	£5,000,000 25 years	£1,500,000 5 years	£2,500,000 5 years
Pooled funds and real estate investment trusts		£20m per fund			

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 £2.5m 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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

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 on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The 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 will limit the risk of loss from a default from lending to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit	**Cash limit**
Any single organisation, except the UK Central Government	£15,000,000	each
UK Central Government	unlimited	unlimited
Any group of organisations under the same ownership	£15,000,000	per group
Any group of pooled funds under the same management	£20,000,000	per fund manager
Negotiable instruments held in a broker's nominee account	£12,500,000	per broker
Foreign countries	£5,000,000	per country
Registered providers and registered social landlords	£12,500,000	in total
Unsecured investments with building societies	£5,000,000	in total
Loans to unrated corporates	£5,000,000	in total
Money Market Funds	£37,500,000	in total
Real estate investment trusts	£12,500,000	in total

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 indicate 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	£m
One-year revenue impact of a 1% rise in interest rates	-£0.226m
One-year revenue impact of a 1% fall in interest rates	£0.226m

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 £0.226m 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:

	2019/20	2020/21	2021/22
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.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

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.

Financial Implications

The budget for investment income in 2020/21 is £0.660m, based on an average investment portfolio of £25m. The budget for debt interest to be paid in 2020/21 is £3.846m, based on an average debt portfolio of £116m. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

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 November 2019
Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.
- The weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Schedule 2 – Existing Investment & Debt Portfolio Position

	31/12/2019 Actual Portfolio £m	**31/12/2019 Average Rate %**
External borrowing:		
Public Works Loan Board	33.9	2.18%
Local authorities	0.0	
LOBO loans from banks	37.0	4.79%
Other loans	6.0	9.83%
Total external borrowing	**76.9**	
Other long-term liabilities:		
Private Finance Initiative	5.2	
Finance Leases	0.0	
Total other long-term liabilities	**5.2**	
Total gross external debt	**82.1**	
Treasury investments:		
Banks & building societies	6.1	0.20%
Government (incl. local authorities)	0.0	
Money Market Funds	9.5	0.75%
Other pooled funds	14.2	4.20%
Total treasury investments	**29.8**	
Net Debt	**52.3**	

TMP5 AUTHORITY, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

INDEX OF SCHEDULES

5.1 LIMITS TO RESPONSIBILITIES

5.1.1 Delegation of Powers

As per the recommendations in the code of practice

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

The Director of Finance and Business Services / Deputy Chief Financial Officer will ensure there is always adequate segregation of duties in all transactions, with specific separation of duties between organising the deal and releasing funds for the deal.

5.3 TREASURY MANAGEMENT AUTHORITY CHART

Director of Finance and Business Services / Deputy Chief Financial Officer

Senior Finance Managers

Finance Manager - Corporate / Assistant Finance Manager - Corporate (Deputy)

Senior Finance Technicians

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1 Director of Finance and Business Services / Deputy Chief Financial Officer

1. The Director of Finance and Business Services / Deputy Chief Financial Officer will:

   a) Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
   b) Submit reports as and when required by Council
   c) Authorise and maintain TMPs and Schedules
   d) Set submit and monitor budgets
   e) Review the performance of the treasury management function.
   f) Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function
   g) Ensure the adequacy of internal audit and liaise with external audit
   h) Recommend the appointment of external service providers where appropriate.
   i) Approve and authorise investment and borrowing deals (within dealing limits – see 5.6)

2. The Director of Finance and Business Services or Deputy Chief Financial Officer have delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

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3. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Finance and Business Services and or Deputy Chief Financial Officer to be satisfied, by reference to legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

4. The Director of Finance and Business Services and or Deputy Chief Financial Officer may delegate power to borrow and invest to members of staff to conduct all dealing transactions (within limits set at section 5.6). All transactions must be

authorised by at least two specified named officers and the Chaps payment released by a third as per the responsibilities set out in 5.4.2 to 5.4.4. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Deputy Chief Financial Officer / Senior Finance Managers.

1. Approve and authorise investment deals (within dealing limits – see 5.6)
2. Release Chaps payments
3. Determine and approve short term borrowing (within borrowing limits – see 5.6).

5.4.3 Finance Manager - Corporate / Assistant Finance Manager - Corporate (Deputy)

The treasury responsibilities of this post will be:-

- To assist Director of Finance and Business Services / Deputy Chief Financial Officer in the formation of the Treasury Strategy.
- Identify and recommend opportunities for improved practices
- Supervise Treasury Management staff
- Monitor performance
- Review the performance of treasury management functions
- Implement Treasury Management Strategy
- Approve and authorise investment deals (within dealing limits – see 5.6)
- Release Chaps payments
- Check interest calculations
- Arrange rescheduling or premature repayment of existing borrowings.

5.4.4 Senior Finance Technician

Responsibilities:-

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

5.5 <u>ABSENCE COVER ARRANGEMENTS</u>

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

5.6 <u>DEALING LIMITS</u>

Dealings can be carried out providing that transactions are within limits determined by the council and the Director of Finance and Business Services / Deputy Chief Financial Officer as detailed in the table below;

Investment Dealing Limits	
Director of Finance and Business Services	As per limits set within the treasury management strategy
Deputy Chief Financial Officer / Senior Finance Managers	Monetary Limits set within TMS / 365 days and under investment horizon
Finance Manager - Corporate / Assistant Finance Manager - Corporate (Deputy)	Up to £5m / 6 months and under investment horizon.

Borrowing Dealing Limits	
Director of Finance and Business Services	As per limits set within the treasury management strategy
Deputy Chief Financial Officer / Senior Finance Managers	Short term Borrowing up to £5m per transactions and 365 days and under borrowing horizon

5.7 LIST OF APPROVED BROKERS/ONLINE BROKER

Prebon Brokers (UK) plc
BGC International Brokers Ltd
ICAP Brokers Ltd
Tradition Brokers
Martin Brokers
I Deal Trade (Arlingclose Trading Platform)

5.8 POLICY ON BROKERS' SERVICES

The authority will use brokers for its temp transactions. The Treasury Manager will evaluate the services provided by Brokers.

5.9 POLICY ON TAPING OF CONVERSATIONS

The authority will not tape telephone conversations

5.10 DIRECT DEALING PRACTICES

All deals are carried out with brokers with the exception of Bank of England and Nat West overnight deposit account.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

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

5.12 DOCUMENTATION REQUIREMENTS

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

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The authority manages funds under delegated powers for Tees Valley Combined Authority.

Appendix G

INVESTMENT STRATEGY REPORT 2020/21

Introduction

The Authority 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 meets the requirements of statutory guidance issued by the government in January 2018, 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 2020/21 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 2019 are shown in table 1 below.

Across 2019/20 and 2020/21 the Council will provide a loan totalling £1.6m to Keepmoat Homes as part of the agreement to develop the Victoria Estate.

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	31.3.2019 actual			2020/21
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Subsidiaries / Joint Ventures	0.800	-0.007	0.793	**5.000**
Local businesses	0.088	-0.003	0.085	**2.000**
Local residents	0.220	0.000	0.220	**1.000**
Employees	0.018	0.000	0.018	**0.050**
TOTAL	**1.125**	**-0.010**	**1.115**	**8.050**

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 2019/20 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 Waste Management (Teesside) (value in the accounts £377k), Teesside 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	31.3.2019 actual			2020/21
	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 financial 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	**31.3.2019 Value £m**
Estate Shops	0.636
Hampton by Hilton Hotel	12.200
Town Centre	2.548
Ground Leases	2.337
Garages	0.088
Agricultural	0.900
Advertising Hoardings	0.040
TOTAL	**18.749**

During 2019/20 the Council purchased Wellington Square and Castlegate shopping centres. These properties do not meet MHCLG definition of investment properties as they were purchased for regeneration purposes. Therefore these are not included within the figures in the table above.

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 and a specialist external valuer as at 31st March 2019. These assets are valued at the end of every year as part of the closure of accounts process.

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

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Budget £m
Gross service expenditure	424.111	390.389	394.312
Investment income	1.403	1.829	1.809
Proportion	**0.33%**	**0.47%**	**0.46%**

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.

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	**31.03.2019 Actual £m**	**31.03.2020 Forecast £m**	**31.03.2021 Forecast £m**
Treasury management investments	28.070	24.450	24.450
Service investments: Loans	1.115	2.109	2.703
Service investments: Shares	0.377	0.377	0.377
Commercial investments: Property	18.749	18.749	18.749
TOTAL INVESTMENTS	**48.311**	**45.685**	**46.279**

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	**31.03.2019 Actual £m**	**31.03.2020 Forecast £m**	**31.03.2021 Forecast £m**
Treasury management investments	0	0	0
Service investments: Loans	0	1.000	1.600
Service investments: Shares	0	0	0
Commercial investments: Property	0	17.000	17.000
TOTAL FUNDED BY BORROWING	**0**	**18.000**	**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	**2018/19 Actual**	**2019/20 Forecast**	**2020/21 Forecast**
Treasury management investments	2.1%	1.7%	2.7%
Service investments: Loans	0.0%	2.9%	2.3%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	2.6%	1.9%	2.2%
ALL INVESTMENTS	**2.2%**	**1.8%**	**2.4%**

Appendix H

SECTION 151 OFFICERS STATEMENT ON THE ROBUSTNESS OF THE BUDGET AND ADEQUACY OF BALANCES –YEAR 2020/21

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and the Council Tax precept, the Chief Finance Officer (Section 151 Officer) must report to it on the following matters:

    - The robustness of the estimates made for the purposes of the Council Tax requirement calculations

    - The adequacy of the proposed financial reserves

    - The Council is required to have due regard to this report when making decisions on the budget.

2. In determining the opinion, the Section 151 Officer has considered the financial management arrangements and control frameworks that are in place, the underlying budget assumptions, the adequacy of the business planning process, the financial risks facing the Council and the level of reserves.

3. The external auditors gave an unqualified opinion on the accounts for the Council for 2019/20. This reflects the fact that the authority had proper and robust financial management and controls in place for that year. Further to this, the external auditors gave an unqualified value for money conclusion for 2019/20. These conclusions are based upon whether the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

4. The Director of Finance and Business Services has responsibility for ensuring that an effective system of internal control is in place and identify any areas for improvement where appropriate. The Audit and Governance Committee receives regular updates on internal controls as well as the Annual Governance Statement which clearly identifies the strength of the governance arrangements in place on an annual basis.

5. There is a rigorous system for budget monitoring and reporting, with Cabinet receiving regular reports throughout the financial year.

6. The MTFP has been reviewed in full and updated for future years. It includes all known changes to funding levels as well as estimates for those funding streams for which we have not received confirmation.

7. All current savings have been tested for deliverability and where adjustments have been required these have been made.

8. Financial risks have been quantified where appropriate and either provision has been made or mitigations have been identified. The key risks in the budget are mainly in relation to demand led budgets, in particular Children’s Social Care, all of which are under significant pressure in the current year. There are mitigation plans in place to manage these pressures.

9. The construction of the budget for 2020/21 and examination and validation of the budget proposals has been subject to challenge by the Council’s Corporate Management Team.

10. The Local Government Finance Act 1992 requires a local authority to have due regard to the level of balances and reserves needs for meeting future estimates of future expenditure when calculating the Council Tax requirement.

11. Balances and reserves are held for three primary purposes:

- A working balance to help cushion the impact of cash flows
- A contingency to cushion the impact of unexpected events and emergencies
- Earmarked reserves to meet known and predicted liabilities

12. As part of the budget setting process, the levels of balances and reserves have been reviewed to ensure that the level is appropriate in the context of local circumstances. The Section 151 Officer (Director of Finance and Business Services) has reviewed the level in order to ensure a prudent level of balances that reflects a risk assessment commensurate with the level of risk that the Council faces and the context within which the authority operates. The level of general balances will be approved by Council alongside the level of Council Tax. Earmarked reserves are held to provide resources for specific, identified purposes.