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ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Cabinet

Date:	**Thursday, 23rd March, 2017**
Time:	**6.30 pm**
Venue:	**Council Chamber, Council Offices, Urban Road, Kirkby-in-Ashfield**

For any further information please contact:

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01623 457318

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CABINET

Membership

Chair:	Councillor Cheryl Butler

Councillors:

Don Davis	Jackie James
Jim Aspinall	Keir Morrison
Tim Brown	Nicolle Ndiweni

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SUMMONS

You are hereby requested to attend a meeting of the Cabinet to be held at the time/place and on the date mentioned above for the purpose of transacting the business set out below.

R. Mitchell
Chief Executive

AGENDA	**Page**
1. To receive apologies for absence, if any	
2. Declarations of Disclosable Pecuniary and Non-Disclosable Pecuniary / Other Interests	
3. To receive and approve as a correct record the minutes of the Cabinet meetings held on 20 February 2017 and 27 February 2017	5 - 16
4. Corporate Leadership Restructure **Key Decision included in the Forward Plan of Executive Decisions** **Portfolio Holder: Cllr Cheryl Butler**	17 - 26
5. Commercial Property Investment Strategy **Key Decision included in the Forward Plan of Executive Decisions** **Portfolio Holder: Cllr Cheryl Butler**	27 - 32
6. The Council's Treasury Management Strategy **Key Decision included in the Forward Plan of Executive Decisions** **Portfolio Holder: Cllr Jackie James**	33 - 52

Exempt Information

A Member of Cabinet is asked to move:-

“That in accordance with the provisions of Section 100A of the Local Government Act 1972, the press and public be now excluded from the meeting during the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 Part 1 of Schedule 12A of the Act in respect of which the Proper Officer considers the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

CABINET

Meeting held in the Council Chamber, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Monday, 20th February, 2017 at 6.30 pm

Present: Councillor Cheryl Butler in the Chair;

Councillors Jim Aspinall, Tim Brown, Don Davis, Jackie James, Keir Morrison and Nicolle Ndiweni.

Officers Present: Craig Bonar, Edd deCoverly, Ruth Dennis, David Greenwood, Mike Joy, Alan Maher, Robert Mitchell, Paul Parkinson and Carys Turner-Jones.

In Attendance: Councillors Amanda Brown, Helen-Ann Smith and Jason Zadrozny.

CA.70 Declarations of Disclosable Pecuniary and Non-Disclosable Pecuniary / Other Interests

There were no Declarations of Interest.

CA.71 Minutes

The minutes of the meeting held on Thursday 19 January 2017 were approved as a true record.

CA.72 Scrutiny Review of Home-Made Kerb Sets (Cemeteries)

Members were informed that Scrutiny Panel 'A' had carried out a review of home-made 'kerb sets', or boundary markers and other decorations placed on and around grave plots in the Council's cemeteries. There had been an increase in the number of grave plots with home-made Kerb Sets and decorations in recent years. The Panel wanted to assess what the impact of this increase had been on the day-to-day maintenance of the cemeteries and in particular, what health and safety risks it had caused.

The report to Cabinet explained the key findings from the review and its recommendations. These included two minority recommendations made by Cllrs Tony Brewer and Helen-Ann Smith. Cabinet heard from Cllrs Amanda Brown, the Chair of the Panel and Cllr Helen Ann Smith. Cabinet discussed the report. Members felt that Scrutiny Panel 'A' had carried out an excellent piece of work and had raised many important issues. It was agreed that these issues would need to be carefully assessed, in order to determine the most appropriate response to them.

RESOLVED

a) That Cabinet notes the recommendations of Scrutiny Panel ‘A’.

b) That a further report be submitted to Cabinet setting out a proposed response to these recommendations.

Reasons
To help alleviate some of the current issues relating to health and safety, general maintenance and consistency of rules for all.

CA.73 Scrutiny Review of Fuel Poverty and Affordable Warmth

Members then heard about the review which the Overview & Scrutiny Committee had carried out into Fuel Poverty and Affordable Warmth in the District. The Committee wanted to assess the impact of Fuel Poverty on the District and especially on the health and wellbeing of vulnerable people. It also wanted to find out whether existing policies and strategies had helped to alleviate Fuel Poverty and promote Affordable Warmth.

The report to Cabinet explained the key findings from the review and its recommendations. In particular, Members of the Committee had been very disappointed to hear that the Government had changed its policy on the introduction of so-called ‘Smart Meters’. These meters measure exactly how much energy people use and how much they are paying for each unit of energy. However, instead of requiring that all homes have a Smart Meter installed by 2020, the Government only now requires that the energy companies should offer householders one.

Cabinet shared the Overview & Scrutiny Committee’s disappointment at this change in policy. There was a consensus that it would greatly reduce the take-up of Smart Meters, including the take-up by people in fuel poverty who might benefit greatly by having one. In line with the Committee’s recommendations, Cabinet agreed that the Leader of the Council should write to Ministers and urge them to once again make the installation of Smart Meters for all customers a mandatory requirement on energy supply companies.

RESOLVED

a) That Cabinet agrees the recommendations of the Overview & Scrutiny Committee on Affordable Warmth and Fuel Poverty as set out in the report;

b) That Cabinet agrees that the necessary action required to implement these recommendations be taken by officers;

c) That Cabinet notes that the Overview & Scrutiny Committee will revisit the issue on Fuel Poverty and Affordable Warmth in six months’ time.

Reasons
Reducing Fuel Poverty and improving Affordable Warmth forms part of the Council's corporate priorities and key activities in relation to health and well-being, housing and place and communities.

CA.74 **Regulation of Investigatory Powers Act 2000 (RIPA) Update**

Cabinet was asked to consider and approve amendments to the Council's Regulation of Investigatory Powers Act (RIPA) policy. It was explained that these amendments were required to help ensure that the Policy remained in line with current legislation and guidance.

Members discussed the report and the amendments. They heard that the amendments incorporate various changes recommended by the Office of the Surveillance Commissioners (OSC). Cabinet also noted that the Council had not used its powers under RIPA to authorise any covert surveillance during the last twelve months.

RESOLVED

a) That Cabinet approves and accepts the proposed amendments to the Regulation of Investigatory Powers Act 2000 (RIPA) Policy;

b) That Cabinet delegates responsibility to the Assistant Chief Executive (Governance) for all minor amendments to the Policy;

c) That Cabinet notes that the Council has not authorised any covert surveillance pursuant to the RIPA powers in the past 12 months.

Reasons
The RIPA Policy should be reviewed regularly to ensure that it remains fit for purpose. The amendments to the policy comply with that requirement.

CA.75 **The Council's Capital Strategy**

The report to Cabinet proposed a revised Capital Strategy. This was intended to reflect the Council's current priorities and the need for investment to help support and benefit its Medium Term financial strategy (MTFS). Under the revised Capital Strategy, there would be a greater focus on investing in commercial and residential assets to help generate ongoing income. This income could then be used to help support the Council's services.

Members welcomed the suggested approach. They felt that it would help the Council to offset the large scale reductions in support from central government and so protect services to the public.

RESOLVED

a) That Cabinet agrees the principles of the new Capital Strategy;

b) Cabinet notes that the revised policy of Minimum Revenue Provision will be formally considered as part of the Treasury Management Strategy at the Cabinet's meeting in March 2017;

c) Cabinet notes that a further report will be submitted to its March 2017 meeting, detailing the matrix which will be used to select appropriate potential investment properties and the proposed governance arrangements to enable such purchases.

Reasons
In order to use the Council's resources to enhance infrastructure which is used to provide services, and providing funding for those services to be continued.

CA.76 Capital Programme 2016/17 - 2019/20

Members were next asked to consider a revised Capital Programme that would be based on the new Capital Strategy. Total General Fund capital expenditure, it was explained, would increase by £152k over the life of the programme. Similarly, funding for Area Committee schemes would increase by £94k to be met from Section 106 grants (or the money which developers provide to fund projects that benefit the community as a condition of approved planning applications) and other external sources. Capital expenditure on the Housing Revenue Account would decrease by £2.3M. This reduction reflected changes that had been made to the profile and mix of Decent Homes Schemes, which meant that less capital expenditure was now required.

Cabinet discussed the revised Capital Programme and how specific projects would be funded. Members were reminded that the Council had put in place a Corporate Project Management Framework to help choose and take forward projects. Cabinet emphasised just how important it was that this framework be followed.

RESOLVED

a) That Cabinet endorses the revised Capital Programme and recommends it to Council for approval;

b) That Cabinet agrees that all Capital Projects, including the Section 106 and grant funded projects should follow the Council's Corporate Project Management Framework;

c) Cabinet notes that projects will be assessed for their contribution to the Corporate Plan and impact on the Council's budget, with those that contribute positively to the Council's priorities and impact positively on its Medium Term Financial Strategy (MTFS) given priority.

Reasons
To allow capital investment for the period 2016/17 to 2019/20

CA.77 General Fund Revenue Budget 2016/17 and 2017/18

The report to Cabinet set out the revised General Fund estimates for 2016/17 and the proposed estimates for 2017/18. Members were reminded that the Council faced major financial challenges as a result of the ongoing reductions in central government funding that had already taken place and which were expected to continue. These challenges had become even more difficult since the Provisional Local Government Financial Settlement had been published, towards the end of 2016. As a consequence, the Council faced a £1M budget shortfall for 2017/18.

The report explained that this shortfall would be met by generating income through new commercial activities, such as the introduction of a trade waste recycling scheme. There would also have to be a package of service efficiency savings. One of these savings would involve a restructure of the Council's Corporate Leadership Team, which was expected to save at least £100k.

Cabinet discussed the report. There was a consensus that the Council would have to work in new ways if it was to continue to achieve its corporate goals and objectives. Members recognised that difficult decisions would have to be made and that these were likely to become even more difficult in the future.

RESOLVED

a) That Cabinet endorses the General Fund Revenue Estimates for 2016/17 (Revised) and 2017/18 and recommends them to Council for approval;

b) That Cabinet agrees that the Local Council Tax Support Scheme continues in its current form for 2017/18;

c) That Cabinet agrees that £30k be allocated from the Corporate Improvement Fund for investment in the new bins required for the Trade Waste Recycling project;

d) That Cabinet agrees that the Council seeks sponsorship to reduce the overall cost of providing Christmas trees, lights and events;

e) That Cabinet agrees that the bespoke Equality Advice Service from Mansfield District Council ceases to be provided as part of the Human Resources (HR) Shared Service and that formal notice be given to Mansfield District Council, in accordance with the Service Level Agreement, to cease provision from the Shared HR Service;

f) That Cabinet agrees that the Council use agency workers (rather than fixed term contracts) to provide staffing for seasonal environmental work;

g) That Cabinet agrees in principle, pending a more detailed report, to a reduction in the size of the Council's Corporate Leadership Team, with a target saving of £100k.

Reasons
In order to set a balanced budget for 2017/18 which reduces the net cost of the Council's General Fund Revenue services in line with future predictions of reductions in resources.

CA.78 Housing Revenue Account (HRA) Budgets (Revised 2016/17 and 2017/18)

Cabinet then considered a report setting out the revised Housing Revenue Account (HRA) estimate for 2016/17 and the Housing Revenue Accounts for 2017/18. As part of this, Members heard that ongoing savings of £300k were initially expected following the closure of Ashfield Homes Limited. However, they were informed that this ongoing saving had increased and was now closer to £400k. Members welcomed this. They also welcomed the additional one off saving of approximately £500k that had been achieved as a result of the closure, which had been transferred into the Housing Revenue Account.

Cabinet noted that under the Welfare Reform and Work Act 2016, the Council was required to reduce the rents of Council properties by 1%. Cabinet was concerned that this would be counter-productive. It would reduce income and so make it more difficult for the Council to build or acquire new homes required to meet the District’s housing needs. There was a discussion of the possible ways of acquiring new properties and the specific options that were being explored.

RESOLVED

a) That Cabinet agrees the budgets for the Housing Revenue Account (HRA) for 2016/17 (revised) and 2017/18;

b) Cabinet notes that due to the Housing and Planning Act, the budget may require an amendment during 2017/18 once an implementation date has been set for requirements of the Act in respect of ‘Sale of Higher Value Council Stock’;

c) That Cabinet agrees an average rent decrease of 1% for all Council house rents for 2017/18;

d) That Cabinet agrees a garage rent increase of 2% for 2017/18;

e) That Cabinet agrees communal heating charges should remain unchanged at the current rate for 2017/18;

f) That Cabinet agrees to adopt the policy of moving to formula rent at the point of re-let following vacancy from 3 April 2017;

g) That Cabinet approves the addition to the core rent of the estate based service charges on new build properties.

Reasons
To approve the budgets for the HRA for 2016/17 (revised) and 2017/18 to allow the operation of the service within financial limits;

To set a 1% rent decrease as detailed in Section 23-33 of the Welfare Reform and Work Act 2016.

CA.79 <u>The Council's Medium Term Financial Strategy 2018/19 to 2022/23</u>

The report to Cabinet updated the Council's Medium Term Financial Strategy (MTFS). The report explained the reasons why the financial position facing the Council had become more difficult. These included a likely reduction in the amount of New Homes Bonus which it receives. As a consequence, the Council would now face a greater than expected annual budget shortfall throughout the life of the MTFS. Net additional savings of around £3.8M would have to be made, on top of the £1M of savings that had already been identified for 2017/18.

Cabinet discussed the MTFS and how to achieve these savings. There was a consensus that the reductions in central funding that had occurred since 2010 had impacted significantly on the Council and that this impact was likely to become even more significant as more savings have to be made.

RESOLVED

That Cabinet notes the continuing forecast budget 'gaps' over the next five financial years and agrees that a savings target of £1M should be set for 2018/19

Reasons
To address the ongoing gap between the Council's need to spend and its' available funding.

CA.80 <u>Approval to Accept £375k Local Growth Fund Contribution from D2N2 Local Economic Partnership (LEP) for Idlewells Indoor Market</u>

Cabinet was informed that the D2N2 Local Economic Partnership had now offered the Council a grant of £375k from the Local Growth Fund towards the cost of redeveloping Idlewells Indoor Market. This grant aid would be made from funds that the LEP had previously allocated to the projects of other organisations, but which they had been unable to spend.

Cabinet discussed the offer of grant aid. It heard that the additional money would help to improve significantly the market redevelopment. There was a consensus that the Council would have to increasingly seek out grants and funds from other bodies in this way if it was to continue to achieve its goals. In this context, Cabinet felt it important that rapid progress should be made in progressing the redevelopment so that the grant was used fully during the current financial year. This would help to improve the Council's case for securing additional grant aid for other projects.

RESOLVED

a) That Cabinet approves acceptance of the funding contribution of £375k from the D2N2 Local Economic Partnership;

b) That cabinet authorises the Chief Executive or the Deputy Chief Executive to enter into a Funding Agreement with the Accountable Body, Nottinghamshire County Council;

c) That Cabinet agrees that the Capital Programme is updated accordingly, with the funding being utilised in 2016/17;

d) That Cabinet agrees that the required changes to the Capital Programme be recommended to Council for approval.

Reasons
To assist in the redevelopment of Idlewells Indoor Market.

CA.81 <u>Exclusion of Public and Press</u>

RESOLVED

That in accordance with the provisions of Section 100A of the Local Government Act 1972, the press and public be now excluded from the meeting during the following item of business on the grounds that it involves the likely disclosure of information as defined in Paragraph 3 Part 1 of Schedule 12A of the Act and in respect of which the Proper Officer considers the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

CA.82 <u>Council House Investment</u>

The report to Cabinet sought approval to purchase 9 new homes to be rented as social housing to tenants in the District. Cabinet discussed the report. There was a consensus that this was an excellent initiative that should be supported.

RESOLVED

a) That Cabinet endorses the purchase of 9 new homes and associated costs on the terms set out in the report;

b) That this addition to the Capital Programme be recommended to Council for approval;

c) That Cabinet authorises officers to proceed with the purchase of the properties along the terms set out in the report.

Reasons
To assist families on the housing register with housing need.

CA.83 <u>Write-off of amounts over £5,000 for Non-Domestic Rates</u>

Members were informed of cases where no further action could be taken to recover debts owed to the council and which would have to be written off.

RESOLVED

That Cabinet notes and agrees the amounts for write off as set out in the report.

Reasons
To inform Members of the write-off of unrecoverable sums.

The meeting closed at 7.30 pm

Chairman.

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CABINET

Meeting held in the Main Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Monday, 27th February, 2017 at 6.00 pm

Present:	Councillor Cheryl Butler in the Chair; Councillors Jim Aspinall, Tim Brown, Don Davis, Jackie James, Keir Morrison and Nicolle Ndiweni.
Officers Present:	Richard Crossland, Edd deCoverly, Ruth Dennis, David Greenwood, Alan Maher, Robert Mitchell, Paul Parkinson and Carys Turner-Jones.
In Attendance:	Councillors David Griffiths, Helen Hollis, Glenys Maxwell, Lachlan Morrison, Paul Roberts, Christine Quinn-Wilcox, Sam Wilson, Jason Zadrozny

CA.84 Declarations of Disclosable Pecuniary and Non-Disclosable Pecuniary / Other Interests

Councillor Tim Brown declared an 'Other Interest' in Item 4 as an employee of the Department for Work and Pensions.

CA.85 Council Tax 2017-18

Members were reminded that Cabinet had agreed the detailed Revenue Budget for 2016/17 (Revised) and for 2017/18 at its meeting on 20 February 2017. Following on from this, the report asked Cabinet to now agree that a Council Tax level for 2017/18 be recommended to Council for approval.

Cabinet discussed the report. During this discussion Members emphasised the extremely difficult financial position facing the Council as a result of reductions in external support from Central Government. They noted that this support was projected to fall by half between 2010 and 2020. They also noted that the challenges facing the Council had become even more difficult since the Provisional Local Government Financial Settlement had been published, towards the end of 2016. As a consequence, the Council faced a £1M budget shortfall for 2017/18, which would have to be met.

RESOLVED:

Cabinet agrees that a Band 'D' Council Tax level of £180.46 for Ashfield District Council is recommended to Council.

Reasons
In order to set a balanced budget for 2017/18 in the context of the Council's Medium Term Financial Strategy.

CA.86 Council Offices Kirkby - Letting of Part of the Ground Floor

The report sought approval to revise the terms for leasing part of the ground floor of the Council's main offices in Kirkby for use by the Department for Work and Pensions. Members were told that this was essentially a technical change. It would neither change the cost of the lease nor how the offices would be used. Cabinet supported the change.

RESOLVED

a) That Cabinet approves the leasing of part of the ground floor of the Council's Offices, Kirkby in Ashfield, to the Secretary of State for Communities and Local Government of the Department for Work and Pensions;
b) That Cabinet delegates authority to the Service Director – Place and Communities to conclude the negotiations relating to the final lease terms in conjunction with the Portfolio Holder;
c) That the Assistant Chief Executive (Governance) be instructed to draw up the necessary documentation in consultation with the Estates Manager.

Reasons
Cabinet previously agreed to lease part of the ground floor to the Secretary of State for Work and Pensions; the lessee's solicitor has recently requested that Council agree to change the Lessee to the Secretary of State for Communities and Local Government of the Department for Work and Pensions as this is the holding department for Central Government.

The meeting closed at 6.15 pm

Chairman.

Report To:	Cabinet	**Date:**	23/3/17
Heading:	CORPORATE LEADERSHIP RESTRUCTURE		
Portfolio Holder:	CLLR CHERYL BUTLER – LEADER OF THE COUNCIL		
Ward/s:	ALL		
Key Decision:	Yes		
Subject To Call-In:	Yes		

Purpose Of Report

To seek approval from Cabinet to revise the Corporate Leadership Team structure.

Key drivers for change

- Financial Savings
- Delivery of the Corporate Plan
- Customer focus and service
- Commercial focus
- Managers to be more empowered, removing bureaucracy, whilst ensuring robust performance management and accountability
- Recruitment and retention
- Synergies and collaborative working

Recommendation(s)

1. To approve and recommend the revised structure as shown in appendix 1 and detailed in this report to the Chief Officers Employment Committee
2. To authorise the Chief Executive in consultation with the Leader to implement the revised structure (subject to approval by the Chief Officers Employment Committee)
3. To authorise the Chief Executive in consultation with the Leader to undertake the necessary Human Resource actions required to implement the revised structure (subject to approval by the Chief Officers Employment Committee)

Reasons For Recommendation(s)

Appendix one sets out the current structure and a proposed new structure. The proposed new structure reduces the number of director posts to four Directors each reporting to the Chief Executive. The structure and roles have been defined based on informal and formal consultation with the affected staff and Trade Unions. The structure has been assessed against a number of factors including;

- Financial Savings – the degree to which the revision makes savings to the Council's revenue budget

- Capacity – the degree of capacity that the revised structure offers in order to provide the leadership capacity needed and to meet the operational needs of the Council's services

- Retention & Recruitment – how attractive are the roles to existing and potential future recruits will the proposals retain and attract existing and future talent. To what degree will the proposals support the development of aspiring third tier officers.

- Sustainability - how much longevity will the proposed structure have especially given the need for financial savings.

- Functionality - Does the structure provide a sound grouping of services and create synergies between service areas.

- Risk – what risks does the option increase or decrease.

In light of an assessment by the Chief Executive using these factors and having compared and contrasted the Council's current and proposed structures with other similar authorities it is proposed that the Council adopts a Corporate Leadership structure based on four Directors as shown in appendix 1.

Alternative Options Considered (With Reasons Why Not Adopted)

A range of alternative structures were considered and discounted using the approach detailed above. The selected option provides the optimum outcome given our current financial and operational situation.

Detailed Information

It is proposed that the Council adopts a Corporate Leadership structure based on four Directors as shown in appendix one. A feature of the new structure is the proposal to have one Officer who will be paid a non-contractual, special responsibility allowance of £3000 p.a. This Officer will be the nominated Head of Paid Services and provide cover in the Chief Executive's absence, along with acting as the representative of the Chief Executive when required.

The Director roles and job descriptions are deliberately quite generic but do include technical and specialist knowledge based on the specifics of the role. A key part of each role is the wider leadership competencies expected of a Director and the expectation that they will work as a team across the Council, leading on corporate projects alongside their functional responsibilities.

The new roles are as follows

- Director of Legal and Governance

- Director of Place and Communities

- Director of Housing and Assets

- Director of Resources and Business Transformation

The roles have been evaluated using the Local Government Scheme for chief officers by the HR Shared Service. The salary point is £76,000 p.a. being based on a pay bench marking exercise also undertaken by the HR Shared Service.

Appointment to proposed new structure

The appointments to the proposed structure will be made in line with the Restructure and Redundancy Policy.

A test of difference exercise has been completed for the current roles against the proposed roles which determined that the posts were found to be 'not significantly different' detailed in the table below:

Current Post	Proposed Post	Comments
Assistant Chief Executive - Governance	Director of Legal and Governance	Match
Service Director – Place and Communities	Director of Place and Communities	Match
Service Director - Housing	Director of Housing and Assets	Match
Deputy Chief Executive Officer - Resources	Director of Resources and Business Transformation	Match – two posts merging into one
Service Director – Corporate Support and Transformation	Director of Resources and Business Transformation	Match – two posts merging into one

Where there is only one match the post holders can be assimilated into the new posts.

The posts of Deputy Chief Executive – Resources and the Service Director -Corporate and Transformation are being merged into a single post of Director of Resources and Business Transformation and therefore in accordance with the Restructuring and Redundancy Policy (see below) will be subject to a competitive selection process subject to both officers stating an interest in the role:

'*Where there is a post, or posts, in the new structure which clearly result from the merging of two or more posts from the old structure then those existing post holders will be the initial candidates invited to apply for the post(s) and a ring fenced competitive recruitment process will apply'.*

It is anticipated that the new structure will be implemented following relevant processes and following the relevant Committee Approval and call in. A target date for implementation is the 1st of June 2017.

The appointment to deputise for the Chief Executive will be ring fenced to all eligible Directors (note the Director Legal and Governance is not eligible to undertake this role due to a conflict with the Monitoring Officer designation). Expressions of interest will be requested and a competitive selection process undertaken.

Post implementation of the new structure all post holders will have a Development Review to support them in their new roles.

Statutory Officers

Within this report there are impacts on two statutory roles that of the Section 151 officer and that of the Monitoring Officer. The impact on the Monitoring Officer is not significant and requires no additional changes or governance. In the scenario whereby the current Deputy Chief Executive and S151 Officer leaves the Authority the Corporate Finance Manager, would subject to Council approval, be re-designated as S151 Officer and would meet the statutory functions of the Section 151 officer. There is no requirement that the Section 151 Officer be at Director level. The post holder Corporate Finance Manager would be paid an honorarium (as per the Council's Policy) until such time as the post is reviewed as detailed below. The current indicative timetable indicates that the transfer of S151 responsibilities to the Corporate Finance Manager would be effective from the 1st June 2017. This will be in advance of a full review being implemented on that post or the finance service. The change will necessitate a review of the finance service to make appropriate changes to support the Corporate Finance Manager to meet the S151 requirements. A sum of £30,000 is being held aside from the overall savings arising from this report to facilitate potential changes.

Third Tier Officers

As a consequence of these proposals there are likely to be line management changes for some of the third tier managers. Assuming approval of this report third tier managers would be informed of any line management changes that affect them. It is proposed that all third tier manager designations will be changed to create a consistent designation, that of Service Manager. This change will be implemented through a migration process and should be used in current and future reviews and restructures. It is to be noted that ongoing and future Service Reviews will affect the number and nature of current third tier roles. It should also be noted that a cross cutting review of the third tier management is likely during the summer/autumn of 2017 following the restructure of the Corporate Leadership Team.

<u>Implications</u>

Corporate Plan:

The structure proposed in this report has been considered against the corporate plan and is aligned with it.

Legal:

All the new Director posts will be Politically Restricted Posts in accordance with Part 1 of the Local Government and Housing Act 1989.

The Monitoring Officer cannot also be the Head of Paid Service (Section 5(1A) LGHA 1989) so is not eligible to undertake the role of deputising for the Chief Executive.

The Council is required to approve an appointment of the Head of Paid Service (and the deputy thereto) and the other statutory roles of Monitoring Officer and Chief Finance Officer (Articles 4 and 11 of the Council's Constitution).

Part 3, Section 1.8 (Committee Terms of Reference) and Part 4 (Employment Procedure Rules) of the Constitution set out the remit of the Chief Officers Employment Committee in relation to the appointment of Chief Officers, the job descriptions for those roles and for recommending appointment of the Statutory Officers to Council for approval.

Finance:

This report is effective from 31/05/2017 or the date from when the arrangements are put in place and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	A full year saving of £128k has been identified when compared to the 2016/17 structure. The 2017/18 budget has already been reduced by £90k, leaving further savings of £38k to be taken. The savings shall be pro-rated to account for part-year implementation.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	A full year saving of £30k has been identified when compared to the 2016/17 structure. The 17/18 budget has already been reduced by £10k, leaving further savings of £20k to be taken.
Housing Revenue Account – Capital Programme	None

A sum of £30k arising from the structure changes has been set aside for potential investment into the finance team in the event that the Deputy Chief Executive and S151 officer leaves the authority through this process. The savings shown above are the net figure following the setting aside of the £30k

Human Resources / Equality and Diversity:
Human resources implications are contained within the report. All employment policies, procedures and protocols will be applied as appropriate. This will include application of the Restructuring and Redundancy Policy, consultation with affected employees and trade unions.

Other Implications:
Trade Union comments

The Chief Executive Officer has consulted the Trade Unions regarding this report.

The Trade Unions believe that the Corporate Leadership Team has delivered effective leadership throughout a very difficult period. There is therefore some anxiety about the reduction in the size of that Team.

Clearly the Council faces a very difficult financial situation and inevitably, the scope of service delivery and the way those services are delivered will change.
We trust that the impact on service managers of a reduced CLT will be a consideration for all the future and current reviews referred to in the report.

We are pleased to see that funds have been allocated to support a review of the Finance Division.

Reason(s) for Urgency (if applicable):

Not applicable

Background Papers

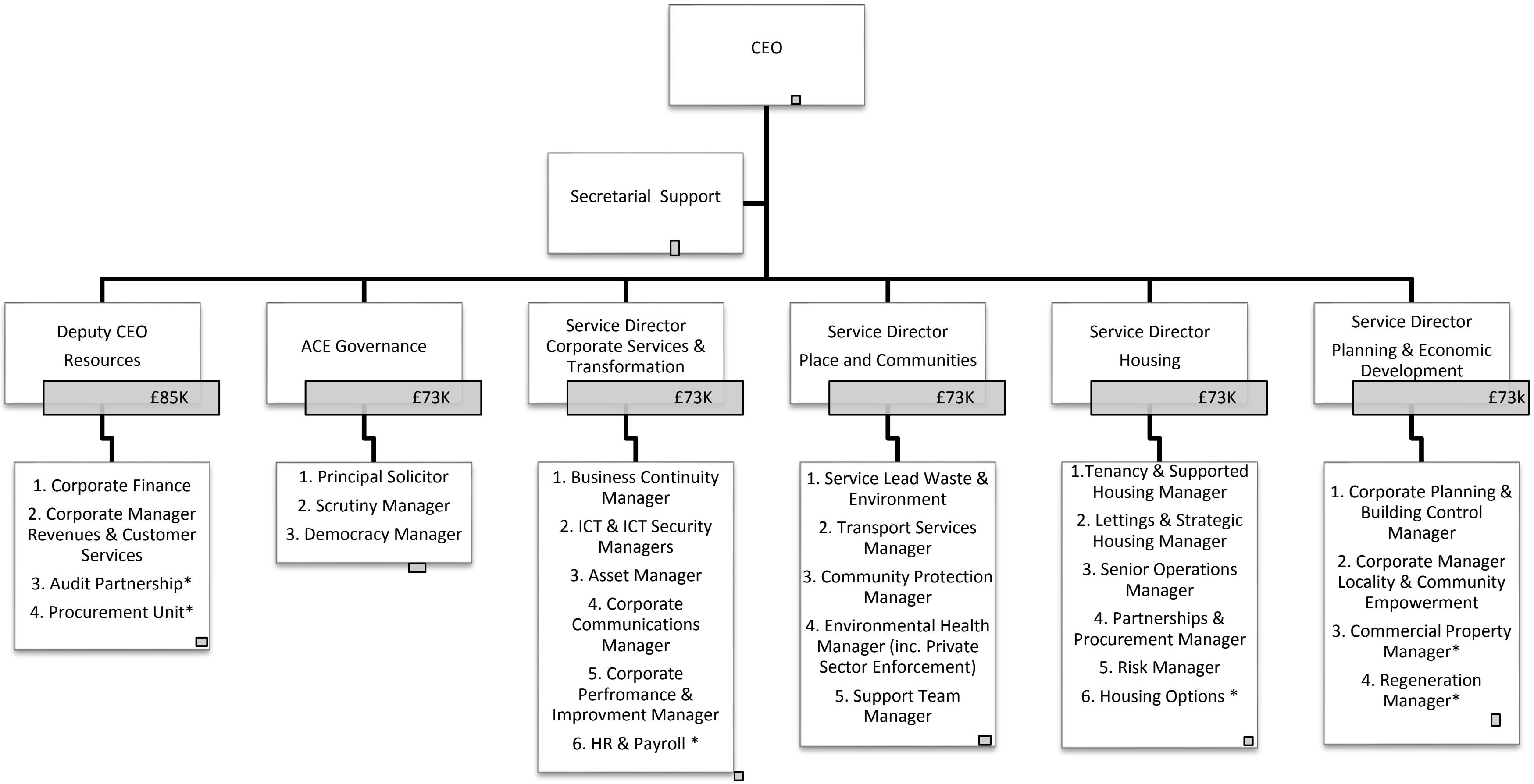
None

Report Author and Contact Officer

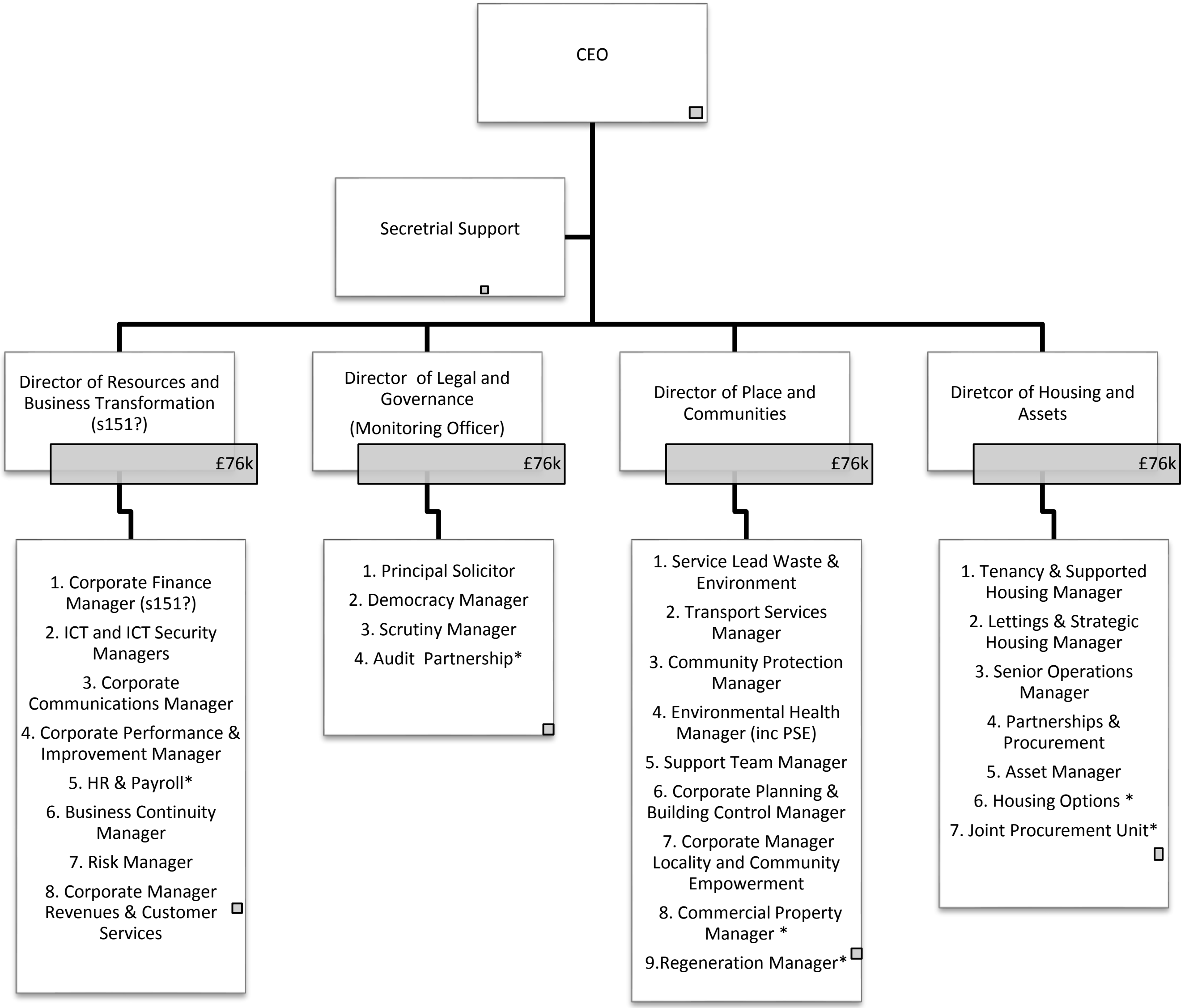
Rob Mitchell, Chief Executive
01623 457250

Rob Mitchell
CHIEF EXECUTIVE

Current Structure – January 17



Proposed Structure – X4 Directors at £76k with x1 DCEO SRA £3k



- *denotes shared service with line management via an external partner
- Note section 151 and or Monitoring officer roles could be delivered at the third tier of management subject to appropriate qualification, experience and capacity – JE re-evaluation would be needed.
- CLT would include statutory officers as core members even if the role is not at a Director level.
- Note all ADC third tier management to be re- designated Service Manager following reviews
- Note third tier management will be affected by on-going service reviews

Report To:	Cabinet	**Date:**	23 March 2017
Heading:	COMMERCIAL PROPERTY INVESTMENT STRATEGY		
Portfolio Holder:	CLLR CHERYL BUTLER – LEADER OF THE COUNCIL		
Ward/s:	N/A		
Key Decision:	Yes		
Subject To Call-In:	Yes		

Purpose Of Report

Cabinet to consider and approve the following approach to investing in commercial property for the purpose of generating a revenue income which will support the Council's Medium Term Financial Strategy.

Recommendation(s)

1) To approve and implement the Commercial Property Investment Strategy as set out in the report,
2) That the Council creates a ring fenced investment fund of £10 million to invest in property investments, that have been evaluated to provide the Council with a suitable rental return on the capital investment.
3) Cabinet recommends to Council to create an investment fund of £10 million in addition to the capital programme.
4) That Cabinet approves the governance arrangements which will be utilised to implement this strategy

Reasons For Recommendation(s)

The purchase of commercial property will enable the Council to invest capital to enable it to receive a revenue income from the rent received, whilst still retaining the freehold interest of the property, which it is anticipated will grow in value over time. The rental income will support the revenue budget in accordance with the Medium Term Financial Strategy and is in line with the Council's aspirations set out in the Commercial Enterprise Strategy. The additional income generated will be used to support the Councils Medium Term Financial Strategy.

Alternative Options Considered (With Reasons Why Not Adopted)

Alternative options would be to not invest in commercial property, but to consider other types of investment which may not provide the same level of return, or provide a similar level of return but at a greater level of risk.

Detailed Information

In November 2015, the Council adopted a Commercial Enterprise Strategy which set out one part of the Council's response to the challenging financial climate. Since 2010, government grant has reduced by nearly 50% and the Council has reduced its operating expenditure from £21m to £15m, whilst minimising the impact on frontline service provision. This achievement has largely been delivered through cost saving initiatives including service reviews, restructures, better procurement and sharing services. The Commercial Enterprise Strategy recognises that further innovation is required to protect frontline services and over the last year the Council has established a commercial team to drive progress.

The recent budget consultation sought views on a range of new commercial opportunities which are actively being explored. One option considered was the establishment of a commercial investment fund and 57% of respondents were supportive of the idea, and only 19% against. In view of this support and the potential returns that may be delivered, the Council is therefore seeking to establish a mechanism to pursue commercial investment opportunities.

The creation of an investment fund to invest in commercial property is an approach already successfully undertaken by other local authorities. Properties purchased around the country have ranged from offices, warehousing and hotels with the objective to benefit from the receipt of the rental income stream.

The council's commercial property team actively manage the current ADC owned commercial property. The commercial property team will lead the process to locate and evaluate potential investments, however external agents and advisers will be used where necessary to assist with this process. This will ensure the Council can fully access the property market and be comprehensively advised, on the property types, locations and the financial returns being considered.

The Commercial Enterprise Board will be kept updated of progress at their scheduled meetings.

Investing in Commercial property is not without risk, as is the case with all types of financial investment. A full risk assessment will be undertaken to minimise this, along with the evaluation process detailed below.

For the Council to consider investing in commercial property the following steps need to be taken :-

Suitable investments need to be identified. It must be recognised that in order for the Council to maximise the opportunity to locate well performing assets, the search will be on a countrywide basis and not restricted to the Ashfield area.

Each opportunity will need to be evaluated on the following basis:-

1) **Income** – This is the annual income the Council will expect to receive following the purchase of the investment. The income received is dependent on the tenant in occupation and the lease agreement in place, and will be assessed looking at the following criteria;-
    - Return on the investment – The financial return on an investment, the initial yield, is the rate of return expected from an investment reflecting the level of income expected to be received and the degree of risk required to receive it.
    - Lease length – This is the length of the contractual agreement currently in place between the landlord (investor in the property) and tenant. Longer agreements are more favourable as they provide the investor with a longer expectation and security of the income to be received.
    - Rent review pattern – This is the frequency and basis that the annual rental received is reviewed over time. Ideally the investor will be looking for regular predictable increases, to allow for future financial planning.
    - Break Option – This is the ability of the tenant to end the lease before the end of the contractual lease term. Leases without an option to break are preferred to provide more certainty to receive the income for the full lease term.
    - Number of tenants in the investment property – Multi let properties require more management and have a risk that part of the building may become vacant. A single tenant who is part of a large national or multinational company would be considered to be less of a risk than several tenants who have a less solid financial track record.
    - Occupancy level – In order to ensure an immediate income stream, it is preferable to invest in a property that is fully let. Vacant or partial vacant properties would be considered less favourable, and the likelihood of them being relet quickly, considered.
    - Property management input - Investment that require the minimum day to day management are considered more favourable. A property let with a single tenant using a lease that requires the tenant to be responsible for all repairs and insurance provision, requires the minimum of management cost by the investor, for the same rate of return. If the investment is located some distance from the Council then minimal management is preferable or a local managing agent will need to be appointed and the cost of this will reduce the net return.

2) **Location** - This is an important criteria to ensure the investment is purchased in an area that is expected to remain vibrant and desirable. This will increase the probability that the capital value of the investment will increase over time, should the Council choose to dispose of the asset in the future, and will remain an attractive location to the existing tenant or to a future tenant should the existing tenant vacate. As noted above, in order to allow the Council to maximise the opportunity to locate well performing assets, the search needs to also look beyond the Ashfield area.

3) **Building** - This needs to be in good condition with a fit for purpose design that is anticipated to remain fully functionally for a significant period into the future. It also needs to have good energy efficiency and performance.

4) **Tenant** – The tenant in occupation needs to be of good financial and ethical standing to ensure the lease agreement that is providing the income is as certain as possible to be provide the required income for the remaining lease term.

5) **Financial viability** – Each potential investment will be evaluated to ensure the income received is sufficient to provide an acceptable net level of return following the payment of borrowing costs, management fees and any running costs.

Methods of purchase –

Private treaty - The Council expects to purchase investment property by private treaty, either investments that are openly being marketed or off market where an opportunity may be offered to the Council without it being first formally marketed for sale.
Auction – An investment may be offer for sale at auction, which requires the Council to purchase on the day of the auction under usual auction conditions.

Governance Process for Purchases

Where time constraints allow, a collective Cabinet decision will be sought, however, it is highly likely that to ensure an opportunity is not missed, a quicker decision-making process will be required. Frequently, where the Council is negotiating a deal by Private Treaty, the seller is likely to want to proceed with the transaction swiftly for financial reasons. Where the Council is looking to purchase at an auction, clearly the contract is signed at the end of the auction and therefore, authorisations must be in place in advance. As such, the Council will seek to use existing provisions within the Scheme of Delegation and Access to Information Procedure Rules to ensure a decision can be taken expediently. In all cases, a full written report and decision record will be maintained and required notices will be published in accordance with the legal requirements.

Specifically:

- Where timeframes do not allow a collective Cabinet decision, the Leader of the Council will take a delegated Executive Decision.

- Where a potential purchase is a key decision and/or will contain exempt information but the full 28 days' notice cannot be given due to the urgency of the matter it is anticipated that a General Exception will be applied (Rule 15). This will give five clear days' notice of the decision which is about to be made. The Monitoring Officer will inform the Chairman of the Overview and Scrutiny Committee and publish the required notices.

- Where there is a greater urgency and 5 clear days' notice cannot be given, the Special Urgency provisions will be used (Rule 16). In this case, the permission of the Chairman of the Overview and Scrutiny Committee (or if they are unable to act, the Chairman of the Council or, in their absence, the Vice Chairman of the Council) will be obtained before making the decision. The Rule 16 notice will be published.

- In such cases it is expected that the decision will need to be implemented without delay and therefore it is anticipated that the decision may not be subject to call in. The report will explain the reasons in each case as to why a decision is not to be called in.

- The Leader must report to the next available Council meeting any decisions which are made pursuant to Rule 16.

Funding Provision

It is proposed to make provision for an initial investment fund of £10million, to purchase investment property based on the evaluation process detailed above. This budget will be set aside purely for commercial investments and will only be accessed by schemes which have been fully evaluated through the Council's commercial investment matrix.

Implications

Corporate Plan: To provide financial sustainability to continue to deliver services

Legal:

Section 120 Local Government Act 1972 – empowers a District Council to acquire land for the purpose of any of the Council's functions or for the benefit, improvement or development of their area by agreement inside or outside its area. No ministerial consent is required.

Section 1 Localism Act 2011 – allows Councils to do anything that an individual generally may do. This includes the power to do it anywhere in the UK or elsewhere, for a commercial purpose, and for the benefit of the authority, its area, or persons resident or present in the area.

Section 1 and 2 Local Government Act 2003 – gives the Council the power to borrow and invest money for any purpose relevant to its functions.

Finance:

This report requires Council approval. If approved, this report is effective from 27th April 2017 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	Upon approval of purchase, the budget shall be amended to reflect additional borrowing costs and lease income. The net effect should represent a net reduction overall in the Council's budget. The process minimises risks as far as possible however there may be situations where revenue costs are unavoidable (e.g. aborted costs where a specific project does not come to fruition, costs associated with management of property where the property is empty). Whilst the Council would look to contain these costs in the first instance, additional budget may be requested thereafter.
General Fund – Capital Programme	A capital fund of £10m for this project will be established once approval is given. As and when properties are approved for purchase, these shall be added to the Capital Programme. Purchases shall only be for Commercial Premises and the Council will adopt Option 4 in respect to the determination of the Minimum Revenue Provision (MRP). The amendment in MRP policy is outlined in the Treasury Management Strategy (also part of this agenda). Upon sale, receipts

	will only be used to repay debt.
Housing Revenue Account – Revenue Budget	None
Housing Revenue Account – Capital Programme	None

Human Resources / Equality and Diversity:

There are no direct Human Resources implications arising from the report.

Other Implications:

NA

Reason(s) for Urgency (if applicable):

Background Papers

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Report To:	CABINET	**Date:**	23rd MARCH 2017
Heading:	THE COUNCIL'S TREASURY MANAGEMENT STRATEGY		
Portfolio Holder:	CLLR JACKIE JAMES - CORPORATE SERVICES		
Ward/s:			
Key Decision:	YES		
Subject To Call-In:	YES		

Purpose Of Report

The Council's Treasury Management Strategy underpins the Council's approach to its treasury management activities. This report will highlight the risks involved with treasury management and the actions that will be undertaken to minimise these risks.

To seek approval for the Council's Treasury Management Activities Prudential Indicators:-

- Estimate of financing costs to net revenue stream for the period split between the Housing Revenue Account and the General Fund;
- Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels;
- Net borrowing and Capital Financing Requirement split between the General Fund and the Housing Revenue Account;
- Estimate of Capital expenditure for the period split between the General Fund and Housing Revenue Account;
- The increase in the Authorised Boundary from £120m to £130m and increase in the Operational Boundary limit from £110m to £120m;
- Changes to Minimum Revenue Provision Policy to allow for use of option 4 Depreciation Method. Any capital receipts from assets where option 4 Depreciation is used will be set aside to reduce debt liability;
- Agree changes to Annual Investment Strategy.

Recommendation(s)

Members are requested to approve and recommend to Council to approve:

1) that any capital receipts from assets where option 4 Depreciation Method for MRP is used will be earmarked for the repayment of the debt liability;
2) Agree the Treasury Management Strategy Statement in Section 4; and
3) Agree the Prudential Indicators in Section 5.

Reasons For Recommendation(s)

The Treasury Management Strategy Statement recommendations will allow for effective Treasury Management operations within the Authority and the Prudential Indicator ratios offer a benchmark by which any future capital expenditure decisions should be made.

Alternative Options Considered (With Reasons Why Not Adopted)

None.

Detailed Information

1. Treasury Management Defined

This Council defines its treasury management activities as:

(a) The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

(b) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

(c) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2. Scope of the Treasury Management Strategy Statement

2.1 This Strategy Statement sets out the Council's approach to financing (borrowing) and investment for the financial year but also sets the context for the following two years.

2.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the "TM Code"). This requires local authorities to determine the Treasury Management Strategy Statement (TMSS) on an annual basis.

2.3 This Strategy statement also incorporates the formal investment strategy which is necessary to comply with guidance issued by the Communities and Local Government (CLG).

2.4 The Strategy sets out the context to Treasury Management in terms of the Council's financial resources as measured in its balance sheet and external factors e.g. interest rates.

3. Approach to risk

3.1 As mentioned in paragraph 1(b) above the Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. The main risks to the Council's Treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (adequacy of cash resources)
- Market or Interest Rate Risk (exposure or fluctuations in interest rate levels)
- Inflation Risk (Exposure to Inflation)
- Refinancing Risk (impact of debt maturing in future years)
- Legal and Regulatory Risk (compliance with statutory powers and regulatory requirements)
- Fraud, Error and Corruption and Contingency Management (maintenance of sound systems and procedures)

4. TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) FOR 2017/18

4.1 Introduction

The TMSS covers two main areas:

- Capital issues
  - the Capital Plans and the Prudential Indicators (4.2)
  - the Minimum Revenue Provision (MRP) strategy (4.3)
- Treasury Management issues
  - the current treasury position (4.4)
  - prospects for interest rates (4.5)
  - borrowing strategy (4.6)
  - policy on borrowing in advance of need (4.7)
  - debt rescheduling (4.8)
  - Annual Investment Strategy (AIS) including policies on creditworthiness and external service providers(AIS) (4.9)

The elements within these areas cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, The CLG MRP Guidance, the CIPFA Treasury Management Code, and the CLG Investment Guidance.

4.2 The Capital Prudential Indicators 2017/18 to 2019/20

At the meeting on 24 March 2016 Cabinet considered a set of Prudential Indicators and referred them for approval by Council on 14 April 2016. Since that meeting there have been revisions to the proposed Capital Programme. The latest version of the Capital Programme was agreed by Cabinet 20 February 2017 and then agreed by Council 27 February 2017. The Prudential Indicators now reflect the latest Capital Programme; the revised figures are included in Section 5.

a. Capital Expenditure

The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators, which are designed to assist members with their overview and confirmation of those capital expenditure plans.

b. Capital Financing Requirement (CFR)(the Council's borrowing need)

The CFR represents the total historic capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure not immediately financed, for example by capital grants, will increase the CFR.

c. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs, net of investment income) against the net revenue stream of the Council. Estimates of financing costs include current commitments, and the effects of the proposals within the current cycle.

d. Incremental impact of 2017/18 – 2019/20 capital investment decisions on council tax

This indicator identifies the revenue costs associated with the capital programme,

4.3 Minimum Revenue Provision (MRP) Policy Statement

Capital expenditure is expenditure on assets with a life expectancy of more than one year, for example, buildings, vehicles, machinery etc. Each year, the Council is required to pay off part of its accumulated capital expenditure by way of a revenue charge, i.e. a "minimum revenue provision" (MRP).

CLG regulations require the Council to approve an MRP Statement in advance of each financial year. The Council must determine an amount of MRP that it considers to be "prudent", the broad aim being to ensure that borrowing is repaid over a period that reflects the useful lives of the assets acquired. The Council is obliged to have regard to the CLG guidance, but it is not prescriptive. The guidance does not, however, define "prudent", instead making recommendations on the interpretation of the term. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent MRP, having had regard to the guidance and its own circumstances.

The following MRP Policy Statement is proposed for 2017/18:

a. The Council will assess MRP in accordance with the recommendations within the guidance issued under section 21(1A) of the Local Government Act 2003

b. Option 1, the regulatory method, will be used for calculating MRP in respect of all capital expenditure incurred up to and including 31 March 2008.

c. Option 3, the Asset Life Method, will be used for calculating MRP in respect of capital expenditure incurred on and after 1 April 2008 where appropriate. An equal instalment approach will be adopted.

d. Where appropriate and prudent the Council will consider using from 2017/18 Option 4, the Depreciation Method, this follows the standard accounting depreciation procedures. Any capital receipts for assets where Option 4 Depreciation is used will be set aside to reduce debt liability.

e. The Chief Financial Officer (CFO) will determine estimated asset lives.

f. In view of the economic climate and significant budgetary pressures, the Council will not provide for an additional voluntary contribution to MRP in 2017/18.

g. MRP is charged in the following accounting year after expenditure is incurred. Based on the above policy, the total MRP charge for 2017/18 has been calculated as £1,630k, as detailed below. The exact amount of MRP will be subject to the out-turn of 2016/17 Statement of Accounts.

	£000's
Option 1 – Regulatory Method	717
Option 3 – Asset Life Method	913
Total MRP	1,630

4.4 The Council's current Treasury portfolio position

The Council must ensure that its total debt, does not, except in the short term, exceed the total of the CFR in the preceding year (the opening CFR), plus the estimates of any additional CFR for the coming year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Council's estimated treasury portfolio position at 31 March 2017, together with forward projections, is summarised below. The table shows the expected actual external debt against the underlying capital borrowing need (the CFR).

	31/03/2017 Estimate £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
Capital Financing Requirement	99.530	101.807	101.116	100.305
Less: Profile of Current Borrowing	75.449	75.449	75.449	75.449
Cumulative Maximum External Borrowing Requirement	24.081	26.358	25.667	24.856

Further to the Capital Strategy the Council wants to set up a £10m investment fund to give scope for the purchase of capital assets with the potential to generate income or make savings.

If this is approved the CFR and borrowing requirement will change as outlined below.

	31/03/2017 Estimate £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
Capital Financing Requirement	99.530	111.807	111.116	110.305
Less: Profile of Current Borrowing	75.449	75.449	75.449	75.449
Cumulative Maximum External Borrowing Requirement	24.081	36.358	35.667	34.856

4.5 Prospects for Interest Rates

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

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

a) UK Economy

UK GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.6%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

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

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

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

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

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

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a ‘business as usual’ mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in quarter 4 grew reasonably strongly, increasing by 1.2% and added 0.1% to GDP growth. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, by December it had fallen back to -7 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

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

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

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

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

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.6% in December. However, prices paid by factories for inputs are rising very strongly although producer output prices are still lagging well behind.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

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

b) USA Economy

The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.5% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

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

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

In the first week since the US election, there was a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

c) Eurozone Economy.

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

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.
There are also significant specific political and other risks within the EZ: -

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

- Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of Italian banks poses a major risk. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- French presidential election; first round 13 April; second round 7 May 2017.

- French National Assembly election June 2017.

- German Federal election August – 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc (Czech Republic, Hungary, Poland and Slovakia) of former communist states.

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

4.6 Borrowing Strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Deputy Chief Executive (Chief Finance Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the Cabinet as part of the half-year or full year out-turn treasury management reports.

Treasury management limits on activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. Consider local indicator covering both fixed and variable debt.

4.7 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely to profit from the investment of the extra sums borrowed, since this is illegal. Any decision to borrow in advance of need will be within the forward-approved CFR estimates, and will be considered carefully to ensure value for money can be demonstrated, and that the Council can ensure the security of such funds.

4.8 Debt Rescheduling

As short-term borrowing rates will be considerably cheaper than longer-term fixed interest rates, there may be potential for some residual opportunities to generate savings by switching from long-term to short-term debt, however, these savings will need to be considered in the light of the premiums incurred, their short nature, and the likely cost of refinancing them once they mature, compared to the current rates on longer term debt in the existing debt portfolio. Any such rescheduling is likely to cause a flattening of the Council's maturity profile, as in recent years there has been a skew towards longer dated PWLB.

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cashflow savings, at minimum risk
- Helping to fulfil the treasury strategy
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

All rescheduling will be reported to Cabinet within the half-year or full year out-turn treasury management reports.

4.9 Annual Investment Strategy 2017/18

The intention of the strategy is to provide security of investment and the minimisation of risk. The aim is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

4.9.1 The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

highest priority - security of the invested capital;

followed by - liquidity of the invested capital (this enables the Council to react to changing circumstances);

finally - an optimum yield which is proportionate with security and liquidity.

4.9.2 Investments made by the Council's Officers are restricted to the following organisations:-

(a) Banks or Building Societies who currently meet the Capita suggested investment duration

(b) Nationalised Industries and Statutory Corporations

(c) Other Government Institutions

(d) Other Local Authorities

(e) Money Market Funds

(f) Bills of Exchange which have been accepted by authorised institutions

(g) United Kingdom Gilt-edged Securities

(h) Negotiable instruments such as Certificates of Deposit, Treasury Bills and Corporate Bonds

(i) Approved counterparties from countries with a minimum sovereign credit rating of AAA from all three rating agencies, with the exception of UK.

Total investments with any one institution shall not exceed £5 million.

Total investments of over 364 days shall not exceed £5 million in total.

4.9.3 Appointment of External Fund Managers

External Fund managers may be appointed to administer the investment of the Council's surplus funds and reserves. Any appointments will be made by the appropriate portfolio holder, having received an analysis of the capabilities and performance of the Fund Manager by the Deputy Chief Executive. Fund Managers will be bound by the restrictions contained within the Treasury Management Policy Statement. The performance of the Fund Managers will be contained in the annual report on the treasury management operation.

4.9.4 Appointment of External Service Providers

The Council uses Capita Asset Services as its external treasury management advisers, however it recognises that responsibility for treasury management decisions remains with the organisation at all times, and will ensure that undue reliance is not placed upon external service providers.

The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

5. Prudential Indicators

The overriding requirement of the prudential code is that borrowings or credit should be both prudent and affordable and remain within sustainable limits.

To demonstrate this, the Council is required to determine a number of limits before the start of the financial year to control the extent of exposure to credit. The Deputy Chief Executive then has a duty to monitor borrowing and credit against these indicators and report on the authority's compliance or otherwise at the end of the year in question. The indicators may be revised during the year if necessary but the amendments must be approved by Cabinet.

Members are therefore requested to consider the Prudential Indicators detailed in this report.

5.1 Prudential Indicators of Affordability

The Council is therefore required to consider all of its available resources in the medium term (usually defined as three years) together with total plans for expenditure. Any known significant variations beyond this timeframe also need to be taken into account. Tables included in a) and b) below do not include the £10m discussed in paragraph 4.4 above as the expected income from these schemes is expected to be greater than the capital financing costs associated with these schemes.

The Prudential indicators for affordability are as follows:

a) Estimate of ratio of financing costs to net revenue stream for the next three years split between the Housing Revenue Account and the General Fund

For the next three years the Council is required to calculate an estimated ratio of its financing costs to net revenue stream for both the General Fund and the Housing Revenue Account. This takes into account predicted future levels of Government funding.

It is suggested that the following indicator be set for the next three years:

	2017/2018 %	2018/2019 %	2019/2020 %
Housing Revenue Account	14.63	14.90	15.15
Non HRA (General Fund)	10.78	11.32	12.88

b) Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Authorities are required to estimate for the next three years the impact on the Council Tax (General Fund) and Rent levels (HRA) of the capital programme including running costs and financing costs. These indicators have been prepared using the revised Capital Programme which was agreed by Council 27th February 2017.

It is estimated that the incremental impact for the next three years will be as follows:

	2017/2018 £	2018/2019 £	2019/2020 £
General Fund (Band D)	5.32	1.57	1.54
HRA (52 weeks)	0	0	0

There is not expected be any new borrowing for the HRA between 2017/18 – 2019/20 as the Authority has reached the borrowing cap. The ratio for the General Fund is calculated by estimating the interest payable on the average capital borrowing requirement and dividing this by the estimated number of Band D equivalents.

c) Net borrowing and the Capital Financing Requirement (CFR) split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that external borrowing does not exceed, except in the short term, the total of their capital financing requirement over the planning period. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some indebtedness outstanding.

It is necessary to estimate the capital financing requirement at the end of the forthcoming year and the subsequent two years for both the Housing Revenue Account and General Fund activities:

	31st March 2018	31st March 2019	31st March 2020
	£m	£m	£m
Housing Revenue Account	80	80	80
General Fund	22	21	20

As discussed in paragraph 4.4 if the £10m Investment Fund is created then the Capital Financing Requirement will change as follows:

	31st March 2018	31st March 2019	31st March 2020
	£m	£m	£m
Housing Revenue Account	80	80	80
General Fund	32	31	30

d) Capital Expenditure

Estimates of capital expenditure for the next three years split between the General Fund and the Housing Revenue Account

The estimated net capital expenditure requiring funding, as detailed in the Capital Programme Report is:

	2017/2018	2018/2019	2019/2020
	£m	£m	£m
Housing Revenue Account	9.0	10.9	9.4
General Fund	6.5	3.2	1.9

External Debt

e) Authorised Limit

For the next three years the authority is required to set an authorised limit for its total external debt, gross of investments. This is calculated by taking into account current external debt, new borrowing for loans which mature or for capital purposes and the need to borrow on a short term basis to cover for temporary shortfalls in revenue income and expenditure.

It is estimated that the following will be a suitable authorised limit for the next three years:

	2017/2018	2018/2019	2019/2020
	£m	£m	£m
Borrowing	130	130	130
Other Financial Instruments	0	0	0

The Authorised Limit has increased by £10m to allow for the increased capital borrowing as agreed in the Capital Strategy which was agreed by Cabinet 20th February 2017.

f) Operational Boundary

As well as an authorised limit the local authority must also set an operational boundary for its external debt for the next three years. The operational boundary is based on the most likely or prudent but not worst case scenario in relation to cash flow.

It is estimated that the following will be a suitable operational boundary for the next three years:

	2017/2018	2018/2019	2019/2020
	£m	£m	£m
Borrowing	120	120	120
Other Financial Instruments	0	0	0

The Operational Boundary has increase by £10m to allow for the increased capital borrowing as agreed in the Capital Strategy which went to Cabinet 20th February 2017.

5.2 Prudential Indicators for Prudence including Capital Expenditure, External Debt and Treasury Management

The prudential indicators for prudence have to be set taking into account those relating to affordability as outlined above and are as follows:

Treasury Management

a) Interest rate exposure

Local authorities are required to set limits for the next three years for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest, and are net of any investments.

Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures below give the following maximum levels, when compared to the operational boundary, of exposure to fixed and variable interest rates, which are prudent limits for the forthcoming years:

Principal Outstanding	2017/2018	2018/2019	2019/2020
	£m	£m	£m
Fixed Rates	130	130	130
Variable Rates (No more than 40% of the operational boundary).	52	52	52

b) Maturity Structure of borrowing

For the next three years the authority is required to set both upper and lower limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer term exposure to interest rate risk.

Given the current structure of the Council's debt portfolio it is proposed the following limits for all three years be made for the maturity of the debt:

	Lower £m	Upper £m
Less than 12 months	0	20
12 months to 24 months	0	20
24 months to 5 years	0	25
5 years to 10 years	0	50
10 year and over	10	100

c) Principal sums invested for more than 364 days

Where a local authority invests, or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter term interest rates.

It is suggested that the use of longer term investments be limited to a maximum of £5m maturity in each of the next three years to tie in with the Council’s already approved policy of not investing more than £5m with any one bank or building society at the same time.

Glossary of Terms

GDP *Gross Domestic Product*
This is the monetary value of all the finished goods and services produced by a country within its borders in a specific time period, usually a year.

G7 G7 Countries
This is an international organisation established to facilitate economic cooperation among the seven wealthiest developed nations –Canada, France, Germany, Great Britain, Italy, Japan, USA.

CPI *Consumer Price Index*
RPI *Retail Price Index*
Both CPI and RPI measure inflation by measuring changes in the price levels of a sample of representative goods and services purchased by households. They use different items and different formulae for the calculations which means that CPI is often lower than RPI.

y/y *Year on year*
Year on year is a method of evaluating two or more measured events to compare the results of one time period with those of a comparable time period on an annualised basis.

MPC *Monetary Policy Committee*
This is a committee of the Bank of England which decides the official interest rate in the UK (the Bank of England Base Rate) and also directs other monetary policy such as quantitative easing and forward guidance.

PWLB *Public Works Loan Board*
The PWLB is a statutory body operating within the UK Debt Management Office to lend money from the National Loan Fund to local authorities and to collect the repayments.

Fed. *The Federal Reserve System*
The Federal Reserve System, often referred to as the Federal Reserve or simply "the Fed," is the central bank of the United States. It was created by the US Congress to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Gilt A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term “gilt” or “gilt-edged security” is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.

Implications

Corporate Plan:

NA

Legal:
There are no significant legal implications outline in the report.

Finance:

This report is effective from 01/04/2017 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	No General Fund Revenue Implications
General Fund – Capital Programme	No General Fund Capital Implications
Housing Revenue Account – Revenue Budget	No Housing Revenue Account Revenue Implications
Housing Revenue Account – Capital Programme	No Housing Revenue Account Capital Implications

Human Resources / Equality and Diversity:
No direct HR implications contained within the report.

Other Implications:

NA

Reason(s) for Urgency (if applicable):

Background Papers

None

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