APPENDIX 1

GOSPORT BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY
(INCORPORATING THE COUNCIL'S EFFICIENCY PLAN)

2016/17 – 2020/21

CONTENTS

GOSPORT BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2020/21

1. 0 INTRODUCTION AND OBJECTIVES

1.1 Introduction

The Medium Term Financial Strategy (MTFS) contains details of the main challenges affecting the Council's finances over the next few years and indicates how the Council will respond to these. It provides the overall framework for the financial investment in services from 2016 to 2021. Updated and reviewed annually, the MTFS helps to ensure that the Council's financial resources are targeted to achieve the strategic priorities and values contained within the Council's Corporate Plan.

It contains sections covering:

- Revenue – the running costs of General Fund services (affecting Council Tax levels),
- Housing Revenue Account – A statutory account which is primarily financed from Council House rents,
- Capital - the Council's plans for investment in assets used to provide benefit over more than 1 year,
- Treasury Management – management of cash flows, borrowing and investing,
- Budgeting; and,
- Risk Management.

The MTFS also provides a link to other financially related strategies including the Capital Strategy, Asset Management Plan, Treasury Management Strategy and Workforce Development Strategy.

1.2 The Council's Mission

The MTFS plays a key role in helping achieve the Council's mission of 'To work with our community to improve everyone's quality of life and deliver a sustainable future for the Borough.' by providing an efficient, effective and robust financial framework which will enable the Council to focus resources on its stated priorities.

1.3 Objectives of the Strategy

The main objectives of the Medium Term Financial Strategy are:-

To help ensure that the Council's financial resources are sufficient to achieve its stated objectives within the Corporate Plan including strategic priorities and core values;

To seek to minimise net debt and maximise income in order to provide investment in economic and efficient services within Council Tax increases below the level that would result in a referendum being required;

To ensure that the Council maintains an adequate level of General Reserves to both meet unforeseen events and help reduce vulnerability to significant fluctuations in Council Tax levels;

To provide both a link and framework to other financially related strategies;

To provide a single document to communicate the financial aims and objectives to staff and stakeholders alike; and

To provide a projection of resource requirements over a 5 year period.

2.0 REVENUE

2.1 General Fund Base Budget 2016/17

2.1.1 The current year's budget is divided into the following service areas:

Gosport Borough Services	Gross Expenditure £'000	Gross Income £'000	Net Budget £'000
Environmental Health Services	1,213	99	1,114
Parks and Leisure Activities	3,085	691	2,394
Housing Services	33,045	32,323	722
Council Housing	12,827	13,455	-628
Refuse Collection	1,680	232	1,448
Town Planning & Development	2,014	460	1,554
Transportation	990	1,091	-101
Other Services and Expenses	6,610	4,253	2,357
Sub-Total	61,464	52,604	8,860
Net transfer to Balances	486		486
TOTAL	61,950	52,604	9,346

2.1.2 The net General Fund budget (before transfer to Balances/Reserves) for 2016/17 is 0.85% lower than that for 2015/16 – the significant reductions in Government Grant and Business Rate income necessitated a transfer from balances and an increase in this Council's element of the Council Tax of approximately 2.5% as detailed in the following table:-

Gosport-Percentage Council tax increase for 2016/17

Council's budget needs	-1.5%
Government Grant and Business Rates variation	20.7%
Transfer to reserves	-16.1%
Change to Council Tax base	-1.1%
Changes to Collection Fund balance	0.5%
	2.5%

2.2 General Fund Projection 2017/18 – 2020/21

2.2.1 The following table shows a forecast of the revenue budget for the next four years and takes into account any significant variations in income and expenditure that are presently known or anticipated. It must be recognised that this projection represents a central forecast and may be subject to considerable variation for a number of reasons such as changes in demand for Council services, new or amended Central Government legislation (including the Government Grant Settlement) and the external economic environment in which the Council has to operate. However, it is essential that this analysis is undertaken and updated as necessary in order that any potential budget problems or opportunities are quickly identified and the appropriate action undertaken.

2.2.2 A variation in the forecasts of only approximately £56,000 affects the Borough's Council Tax rates by 1%. Major risks to the forecasts are detailed in the Council's Budget Book and include variations in demand for statutory services (such as homelessness), reduced income from Government Grants/Business Rate Retention Scheme and reduced income from fees, charges and interest receipts. The projections are particularly susceptible to political decisions on public spending levels by the Government in response to the national economic situation. It is believed that the greater risk to the forecast is on the downside with particular concerns being that there will be a greater reduction in New Homes Bonus Grant (following the Government's current review of the scheme) and the Business Rate income will be lower than currently estimated.

PROJECTED GENERAL FUND FOR THE YEARS TO 2020/21

(AT CURRENT PRICES)

		(£'000)			
		2017/18	**2018/19**	**2019/20**	**2020/21**
A	2016/17 Base Budget	9,345	9,345	9,345	9,345
B	Budget Increases				
	Crematorium (income down)	25	25	25	25
	Pensions ERS	43	46	51	24
	Inflation (inc pay award)	120	240	360	480
	MRP	41	54	20	(30)
	Transfer from Reserves	142	142	142	142
	New Homes Bonus Income	(63)	101	309	412
	Transition Grant		24	24	24
	Apprentices Levy	20	20	20	20
		328	652	951	1,097
C	Local Elections	(55)	0	55	0
		(55)	0	(55)	0
D	PROJECTED BUDGET TOTALS (A+B+C)	9,618	9,997	10,241	10,442
E	**FUNDING**				
	Revenue Support Grant	(612)	(264)	124	124
	Business Rates Collectable	(2,802)	(2,902)	(3,002)	(3,102)
		(3,414)	(3,166)	(2,878)	(2,978)
F	**GBC COUNCIL TAX LEVY (D-E)**	(6,204)	(6,831)	(7,363)	(7,464)
G	**COUNCIL TAX BASE**	**26,020.9**	**26,095.9**	**26,170.9**	**26,245.9**
H	**ESTIMATED COUNCIL TAX INCOME**	**(5,538)**	**(5,684)**	**(5,831)**	**(5,979)**

I	**POTENTIAL SAVINGS REQUIRED**				
	YEAR ON YEAR	**666**	**481**	**385**	**(47)**
	CUMULATIVE	**666**	**1,147**	**1,532**	**1,485**

2.2.3 Whilst the figures projected in paragraph 2.2.2 represent the best projection that can currently be made, there is a lot of uncertainty particularly regarding the level of New Homes Bonus and Business Rate income. Both areas are currently subject to review by Central Government. The Business Rate Retention Scheme is extremely complex with many of the factors that determine the business rate income the Council will receive outside the Council's control such as the level and success rate of business rate appeals (determined by the Valuation Office Agency) and any changes made by Central Government following the current review of the Scheme. The forecast assumes annual Business Rate Receipts of between £2.8M and £3.1M between 2017 and 2021 however it is possible that this could fall to the safety net level (approximately £2.2M in 2017/18). The creation of the Stability and Resilience Reserve does assist in providing some mitigation against this risk.

2.2.4 The 2016/17 Settlement gives indicative levels of support for each Council for the four year period from 2016/17 to 2019/20. The Government has offered those Councils who wish to take it a four year funding settlement to 2019/20. The Settlement consultation stated *'this would provide funding certainty and stability to enable a more proactive planning of service delivery and support strategic collaboration with local partners, Councils should also use their multiyear settlements to strengthen financial management and efficiency, including by maximising value in arrangements with suppliers and making strategic use of reserves in the interests of residents'.*

2.2.5 The Government requires all those Council's that wish to take up the offer of the four year funding settlement and the funding certainty it provides to submit an Efficiency Plan (Appendix A) by 14 October 2016. There is no centrally prescribed format or approval process for the Plan and it is seen as helping achieve the Secretary of States objective that '*demonstrates that they (authorities) have plans to continue to make themselves more efficient'*.

2.2.6 The Plan highlights the efficiencies that have already been achieved in the current year and highlights the new shared senior management arrangements with Portsmouth City Council which will contribute greatly to the task of achieving the savings required over the four year period.

2.3 General Fund Working Balance

2.3.1 A key objective of the Strategy is:-

'To ensure that the Council maintains an adequate level of General Reserves to both meet unforeseen events and help reduce vulnerability to significant fluctuations in Council Tax levels'

2.3.2 The Council's Working Balance minimum prudent target level of 7% of net expenditure was dropped from 2009/10 and the balance frozen at £890,000. Although still very low compared to most local authorities, £890,000 is considered to be adequate, subject to the regular review of budget risk. Gosport's working balance remains in the lowest quartile compared to other local authorities. This is considered appropriate as the Council is conscious that the balance represents local taxpayers' funds set-aside and not directly contributing to service provision.

2.3.3 It must be recognised however, that as a result of the radical changes to the financing of Local Government introduced in 2013/14 the Council is exposed to a number of new risk areas (including the collection of Business Rates, a risk previously borne by Central Government) so that the working balance should not be reduced at this time.

2.4 Revenue Financing Reserve

2.4.1 The Revenue Financing Reserve (RFR) is a reserve available for general use, although it is particularly targeted at:-
- helping achieve efficiencies by providing funding for spend-to-save initiatives (seen as particularly important due to the forecast of a significant reduction in Central Government Grant);
- helping to ensure that variations in annual maintenance requirements can be adequately financed; and,
- reducing exposure to risk by helping to underwrite uninsurable risks and by saving premiums where self-insurance is undertaken.

2.4.2 It is considered that maintaining a viable RFR is an essential element for improved management of the Council's finances. In order to achieve this, the approved Council policy is that the RFR is debited or credited with any General Fund budget variations.

2.5 Stability and Resilience Reserve

2.5.1 A Collection Fund Equalisation Reserve was first introduced in 2014/15 to help mitigate against the risks associated with the introduction of the Business Rate Retention Scheme. The scope for this reserve has been broadened to cover the significant increase in risk and volatility arising from the introduction of the Business Rate Retention Scheme, Council Tax Support scheme and the uncertainty regarding future levels of Revenue Support Grant. In light of this the reserve has been renamed the Stability and Resilience Reserve. The reserve is £1.3 Million as at 31 March 2016 and will greatly assist the Council by giving it more time to adjust to the variation in funding anticipated in the next five years particularly as there is a strong possibility this Council will receive no annual payment of Revenue Support Grant (currently £1.176M) by the end of this period.

3. HOUSING REVENUE ACCOUNT

3.1 Housing Revenue Account (HRA)

3.1.1 The HRA comprises expenditure and income relating to stock of over 3,100 Council dwellings and over 300 leasehold properties. The services provided include management, repairs and maintenance and the rental income collection service.

3.1.2 The determination of future expenditure patterns relies upon the following key elements:

- Repair and maintenance needs of the stock
- Meeting the decent homes and post decent standards
- Aspirations of the tenants
- Social Rent Guidance (1% rent reduction)

- Housing and Planning Act 2016 (High Value Voids)
- The resources available
- Development
- Repayment of long term debt.

3.2 HRA Self Financing

3.2.1 The HRA subsidy reform was in April 2012. For Gosport this meant buying out of a negative subsidy position. Full responsibility for managing and maintaining the stock now rests entirely with the authority. All income is now collected and managed locally and long term investment needs of the stock are now planned in consultation with the tenants.

3.2.2 The government has set a statutory debt limit for each housing authority which comprises the settlement figure for the authority plus what has previously been borrowed under the prudential code. The debt limit/cap for Gosport is £63.07m.This places a constraint on the potential for investment for this authority in the early years of self-financing.

3.2.3 The cap on debt restricts the ability of Authorities to take on additional borrowing under the prudential code.

3.3 HRA Business Planning

3.3.1 An HRA business plan has been developed as part of the requirement for self-financing with an accompanying financial model to show that self-financing is a viable option and that debt can be repaid within the timeframe. The business plan describes the Council's vision for the future of the housing stock under self-financing and details how the Council intends to finance investment in the housing stock. The plan sets out the long term priorities, objectives and actions for council housing for the coming years.

3.3.2 The viability of the plan has been established through the completion of a detailed financial model. The model is calculated over thirty years and shows the baseline position for the HRA. It shows the impact of the increase in housing debt as a consequence of the required borrowing of £57m and the HRA's ability to both repay the debt and manage the stock over the next thirty years.

3.3.3 Detailed calculations are provided within the model for future rent levels, management and maintenance costs as well as capital spend, depreciation, debt repayment and working balances. This model is updated annually and rolled forward to give a continual assessment of income and expenditure over the life of the plan.

3.3.4 The Housing and Planning Act 2016 has the potential to impact significantly on the HRA Business Plan. The agreement for Housing Associations to voluntary take up the RTB, which is to be funded by a levy payable by Local Authorities based on the value of high value stock that becomes void has the potential to considerably impact on HRA balances. The current assessment based on data supplied to Central Government is that the figure will be at least £2m payable per annum. The full impact of this levy is unlikely to be implemented until April 2017 and the exact sum payable by this authority will not be made clear by the Government until at least the late Autumn.

3.4 HRA Rent Income

3.4.1 The Budget announcement in July 2015 of a 1% rent reduction applicable for 4 years and to be implemented from April 2016 has and will continue to have a significant impact on HRA finances. Rental guidance had previously been issued in April 2015 with a commitment of annual increases at CPI + 1% for 10 years. The impact on the HRA is an overall reduction on income previously budgeted for of £4.6m over the 4 years and approximately £65m over the 30years of the Business Plan. The reduction per property is £11.60 or 12.8% per week by 2019/20.

3.5 Improvement and Repairs

3.5.1 The Council has an Asset Management Strategy for the HRA that covers the period 2016-21.It has been drawn up to complement the HRA Business Plan and sets out the medium term implications of maintaining and improving the stock. It' will do this with regard to ensuring value for money, investment, procurement and partnering. The Asset Management Strategy has been informed by the Stock Condition Survey undertaken by Savills in 2012. A rolling 5 year programme of surveys will ensure that all stock information is improved and accurate.

3.5.2 The HRA Asset Management Strategy also complements the Gosport Borough Council Corporate Asset Management Plan of 2013.This document sets out corporate priorities and objectives for all council owned assets. The Council has a number of strategic objectives which underpin this document forming a comprehensive strategic approach to both investment (new assets or development) and re investment (maintenance of existing assets).

3.6 HRA Reserves

3.6.1 At 1st April 2016, the HRA had the following available reserves

HRA - RESERVES	**01-Apr-16 £**
Revenue	
Revenue Account Balance	(991,740)
Major Repairs, New Build & Loan Repayment Reserve	(2,992,350)
	(3,984,090)
Capital	
Capital Receipts - Allowable Debt	(100,000)
Capital Receipts - New Build 1-4-1	(1,016,350)
	(1,116,350)

3.6.2 It is anticipated that these will decrease in future years as the requirement to use funds exceeds new receipts

4.0 CAPITAL

4.1 Capital Priorities and Selection Process

4.1.1 In order to ensure that the Council's capital expenditure is targeted at achieving the Council's priorities capital projects must be evaluated and prioritised before they are recommended for inclusion in the Draft Capital Programme which is considered by Members as part of the budget process.

4.1.2 The projects are considered by the Council's Management Team with particular attention on their affordability (particularly critical as Government grant support has reduced) and their contribution to the priorities detailed within the Corporate Plan and associated Corporate Action Statement. Those schemes presenting invest to save opportunities or those schemes essential to maintaining operational efficiencies are given the highest priority. The Team then make recommendations to Members on the schemes to consider and pursue as part of the Council's Capital Programme.

4.2 Prudential Framework/Impact on Revenue Account

4.2.1 The Local Government Act 2003 introduced major changes to the capital funding regime with effect from 1 April 2004.The previous system of controlling Councils capital expenditure by limiting borrowing through the use of credit approvals was replaced by a more flexible system based on affordability.

4.2.2 The prudential capital finance system (Prudential Framework) allows the Council to make its own borrowing decisions using agreed professional principles as set out in the Prudential Code to ensure that any new borrowing is affordable and prudent. It is accepted that use of the Code by the HRA will necessitate proper arrangements for debt repayment, although not currently required by statute.

4.2.3 The main advantages of the increased freedom to borrow under the Prudential Framework are:-

(i) The ability to bring forward capital schemes that would not otherwise have been possible to fund in the short to medium term under the previous capital financing regime.
(ii) Spend-to-Save Schemes where the cost of the borrowing associated with the capital expenditure on a Scheme can be wholly or partly met by revenue savings arising as a result of the project being carried out.
(iii) The ability to raise funding up to 3 years in advance when market conditions are favourable.

4.2.4 The ability to bring forward capital schemes will be limited by the ability of the Council to afford the revenue consequences of the borrowing undertaken. In any event, the anticipated low levels of supported borrowing, capital grants and other capital funding resources together with the national pooling of Housing Capital Receipts has resulted in an increase in the need to borrow to finance Capital Expenditure.

4 Capital Programme 2016/17-2018/19 (subject to approval by Policy and Organisation Board on 21st September 2016)

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
Community (Housing)	6,149	3,697	2,977	2,977
Community (Non Housing)	2,464	1,449	284	203
Economic Development	27	-	-	-
Policy & Organisation	477	245	215	175
Total Capital Programme	**9,117**	**5,391**	**3,476**	**3,355**
Revenue Contribution - HRA	1,190	50	-	-
Reserves-HRA	4,159	2,970	2,300	2,300
Specific Capital Grants - GF	684	617	617	617
Developer Contributions-GF	509	350	-	-
Other Grants and Contributions	359	350	-	-
Capital receipts -GF	930	492	621	625
Capital Funding Requirement - GF	1,286	562	(62)	(187)
Total Capital Funding	**9,117**	**5,391**	**3,476**	**3,355**

4.3.2 A significant proportion of the planned capital expenditure relates to the Community Board, with the largest area of expenditure being that of improvements to housing stock. A reduction in the expenditure on this budget from 2017/18 has been necessary as a result of the Government's rent reduction policy and the sale of high value void properties.

5.0 TREASURY MANAGEMENT

5.1 Treasury Management Strategy

5.1.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework, the treasury management activity covers the effective funding of these decisions. Taken together they form part of the process which ensures the Council meets the requirement of setting a balanced budget.

5.1.2 The CIPFA code of practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report will be produced after the year-end to report on actual activity for the year together with the mid-year position. This report includes extracts from the Treasury Management Strategy for 2016/17.

5.1.3 A key requirement of the strategy is to explain both the risks associated with the treasury service and how those risks are to be managed.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and debt strategy
- The Council's investment strategy
- Treasury performance indicators;
- Specific limits on treasury activities;
- Any local treasury issues.

5.2 Treasury Position

5.2.1 The Council had net borrowing of approximately £63.2M at 31 March 2016.

5.2.2 The Council's capital expenditure plans will be partially financed by external funds such as capital receipts, capital grants, external contributions and deposits. The remaining element which is not able to be immediately financed from these sources will impact on the Council's borrowing need (the Capital Financing Requirement, or CFR). This borrowing or net financing need is known as unsupported capital expenditure and must be paid for from the Council's own revenue resources.

5.2.3 A key risk of the capital funding plan is that the estimated sources of external funding are subject to confirmation and/or negotiation which may cause changes to the budgeted funding pattern. This will become increasingly important as interest rates begin to rise.

5.3 Prospects for interest rates

5.3.1 The Council has appointed Arlingclose Ltd 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.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	20 year	50 year
Sep 2016	0.25	1.15	2.25	2.20
Dec 2016	0.25	1.15	2.35	2.30
Mar 2017	0.25	1.20	2.35	2.30
Jun 2017	0.25	1.20	2.35	2.30
Sep 2017	0.25	1.20	2.35	2.30
Dec 2017	0.25	1.20	2.35	2.30
Mar 2018	0.25	1.20	2.35	2.30
Jun 2018	0.25	1.20	2.35	2.30
Sep 2018	0.25	1.20	2.35	2.30
Dec 2018	0.25	1.20	2.35	2.30
Mar 2019	0.25	1.25	2.40	2.35
June 2019	0.25	1.30	2.45	2.40
Sep 2019	0.25	1.35	2.50	2.45

5.3.2 The economic trajectory for the UK has been immeasurably altered following the vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

The short to medium-term outlook is somewhat more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. The rapid installation of a new prime minister and cabinet lessened the political uncertainty, and the government/Bank of England have been proarctive in tackling the economic uncertainty.

Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016.

UK CPI inflation (currently 0.6% year/year) will rise close to target over the coming year as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through temporary CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

There is a debatable benefit to further interest rate cuts (particularly with regard to financial stability). Negative Bank Rate is currently perceived by policymakers to be counterproductive, but there is a possibility of close to zero Bank Rate. QE will be used to limit the upward movement in bond yields.

Brexit has hit a global economy already facing a period of slower growth and this event will exacerbate the negative economic sentiment arising from the weaker outlook for global demand growth. Lower demand for raw materials will depress growth in mainly developing countries where extraction is the primary industry. Countries particularly reliant on exports are facing more challenging conditions.

Global interest rate expectations have been pared back considerably. A further rise in the US Federal Funds rate appears less likely, although there remains a possibility of a December 2016 hike. US economic activity has eased considerably, with Q1 2016 quarterly GDP growth of around 0.3%.

5.4 Policy on borrowing in advance of need

5.4.1 The Council has some flexibility to borrow funds for up to three years in advance of when it is needed. The Borough Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected meaning borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

5.4.2 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

5.5 Debt rescheduling

5.5.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

5.5.2 The reasons for any rescheduling to take place will include:

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

5.5.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

5.6 The Council's borrowing strategy

5.6.1 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.

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

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

A 'cost of carry' and breakeven analysis assist in determining whether the Council borrows additional sums at longterm fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Council may borrow short-term loans (normally for up to one year) to cover unexpected cash flow shortages.

5.6.3 The Council's sources of borrowing are:-

- Long-term loans (in excess of 364 days) will be raised with the PWLB or other public bodies
- Short term loans (less than 364 days) will be raised through

- Money market loans through the London Money Market using brokers appointed at the discretion of the Borough Treasurer
- Directly or through brokers, at the discretion of the Borough Treasurer, with other public bodies
- Internal funds – the cash held in internal funds can be used short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally

5.7 The Council's Investment Strategy

- The key objectives of the Council's investment strategy are security, liquidity and yield in that order.
- The Council has determined that it will only use approved counterparties from the UK
- No Investments are to exceed 3 years although most will not exceed 364 days
- A £2m limit applies with any single group other than the Council's Bank where investments will be limited to overnight deposits up to £3m although occasionally for operational reasons this limit may temporarily be exceeded.
- A £3m limit applies to UK Regulated Qualifying Money Market Funds.
- Investments will be placed with bodies that meet the Council's creditworthiness criteria
- There is a clear operational difficulty arising from the current banking situation. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness and interest rates suggests short dated investments may provide lower exposure to risk.

6.0 BUDGET STRATEGY AND PROCESS

6.1 The Council's current Corporate Plan details the Council's Strategic Priorities which are categorised under four main headings namely, People, Places, Prosperity and the Pursuit of Excellence.
The Corporate Action Statements (contained within the Corporate Plan) underpin the delivery of the Corporate Priorities. Any budgetary implications arising from the actions outlined in Service Improvement Plans (SIP) are included within the Council's initial Draft Budget. Depending on the resource constraints affecting the Council these are either ultimately approved or, if this is not possible, the unit SIP is amended to reflect this.

6.2 Budget preparation incorporates requirements resulting from Council priorities identified from Capital Strategies, Community Strategy, Corporate Plan and departmental action plans, culminating in recommendations to Boards and Council the following January/February.

6.3 Budget preparation is "zero-based" where appropriate and new bids are minimised. Maintenance proposals are provided for according to the latest Asset Management Plan requirements.

6.4 Prudent inflation parameters are used in the build up of the initial budgets.

6.6 Capital projects bids are considered for inclusion within the Capital Programme in terms of affordability, including impact on local tax levels as part of the Budget Process. Those schemes presenting invest to save opportunities or those schemes essential to maintaining operational efficiencies are given the highest priority.

6.7 Once the Council's budget is set and the precepting authorities' requirements known, the Council sets Council Tax levels for the forthcoming year (this has to be done by 11 March).

7.0 RISK MANAGEMENT AND INSURANCE

7.1 Risk Management

7.1.1 The Council recognises the importance of an effective risk management process covering all aspects of the significant business risks that the authority faces. Although much has been achieved, ongoing development of the risk management process remains a key priority of the Council and dedicated resource has been earmarked for this purpose. In particular Risk Working groups have been formed to review areas considered to be of greater risk i.e. housing, motor, property and combined liability in order to improve the Council's overall risk performance.

7.1.2 The Council has an agreed Risk Management Strategy in place. Major capital schemes must be risk assessed as part of the approval process. In addition risk registers for both operational and strategic risks are in operation which assesses the financial risks as part of its overall framework. Finally, an established corporate risk management group meets to discuss key risk issues that influence the Council's day-to-day business and to further develop and critically review the risk management process.

7.1.3 The Budget report to Council and the Budget Book highlight the principal areas of risk to the budget with an assessment of likelihood and impact.

7.2 Insurance

7.2.1 In collaboration with the other 10 Hampshire District Councils this Council successfully tendered for insurance services on a long term agreement basis commencing on 1 April 2015. The contract will run for 3 years until 2018 with an option to extend for a further 2 years.
Our new insurers are as follows: -

Property – Allianz Insurance PLC,
Casualty & Motor – QBE Insurance via Risk Management Partners Ltd,
Fidelity, Engineering, PA & Travel – Zurich Municipal PLC
Terrorism – Catlin Ltd.

7.2.2 The new contracts will ensure that the Council continues to have a robust range of insurance policies in place to help safeguard against many of the higher financial risk, in particular the areas of property, employers and public liability insurance.