GOSPORT BOROUGH COUNCIL MEETING AGENDA

Wednesday 29 March 2017
6pm

Notice is hereby given that a **MEETING** of the **COUNCIL OF THE BOROUGH OF GOSPORT** will be held in the **TOWN HALL, GOSPORT** on **WEDNESDAY** the **TWENTY NINTH DAY** of **MARCH 2017** at **6PM, AND ALL MEMBERS OF THE COUNCIL ARE HEREBY SUMMONED TO ATTEND TO CONSIDER AND RESOLVE THE FOLLOWING BUSINESS –**

1. To receive apologies from Members for their inability to attend the Meeting.

2. To confirm the Minutes of Meeting of the Council held on 8th February 2017 (copy herewith)

3. To consider any Mayor's Communications.

4. To receive Deputations in accordance with Standing Order No 3.4 and to answer Public Questions pursuant to Standing Order No 3.5, such questions to be answered orally during a time not exceeding 15 minutes.

   (**NOTE:** Standing Order No 3.4 requires that notice of a Deputation should be received by the Borough Solicitor **NOT LATER THAN 12 O'CLOCK NOON ON MONDAY, 27 MARCH 2017** and likewise Standing Order No 3.6 requires that notice of a Public Question should be received by the Borough Solicitor **NOT LATER THAN 12 O'CLOCK NOON ON MONDAY, 27 MARCH 2017**).

5. Questions (if any) pursuant to Standing Order No 3.3.

   (**NOTE**: Members are reminded that Standing Order No 3.3 requires that Notice of Question pursuant to that Standing Order must be received by the Borough Solicitor **NOT LATER THAN 12 O'CLOCK NOON ON TUESDAY, 28 MARCH 2017**).

6. To receive the following Part II minutes of the Boards of the Council:

BOARD	**DATE**	**Minute No.**
Community Board	8 March 2017	35-36
Economic Development Board	15 March 2017	51-53
Policy and Organisation Board	22 March 2017	To follow

7. Treasury Management & Prudential Indicators 2017/18

To consider the report of the Borough Treasurer.

DAVID WILLIAMS
CHIEF EXECUTIVE

TOWN HALL
GOSPORT

21 March 2017

FIRE PRECAUTIONS

(To be read by the Mayor if members of the public are present)

In the event of the fire alarm being activated, please leave the Council Chamber and Public Gallery immediately. Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

This meeting may be filmed or otherwise recorded. By attending this meeting, you are consenting to any broadcast of your image and being recorded.

MEMBERS ARE REQUESTED TO NOTE THAT:

(1) IF THE COUNCIL WISHES TO CONTINUE ITS BUSINESS BEYOND 9.30PM THEN THE MAYOR MUST MOVE SUCH A PROPOSITION IN ACCORDANCE WITH STANDING ORDER 4.11.18

(2) MOBILE PHONES SHOULD BE SWITCHED OFF OR SWITCHED TO SILENT FOR THE DURATION OF THE MEETING

MINUTES OF THE MEETING OF THE COUNCIL
HELD ON 8 FEBRUARY 2017 AT 6.00pm

Attendance:

The Mayor (Councillor Mrs Hook) (P) (in the Chair);

Councillors Allen (P), Ms Ballard, Bateman (P), Mrs Batty (P), Beavis (P), Bergin (P) , Burgess (P), Carter (P), Chegwyn (P), Mrs Cully (P), Ms Diffey, Earle (P), Edgar (P), Farr (P) Mrs Forder (P), Foster-Reed (P),Mrs Furlong (P), Hicks (P), Hook (P), Huggins (P) Hylands (P), Jessop (P), Mrs Jones (P), Miss Kelly (P), Mrs Morgan (P), Murphy (P), Philpott (P) , Prickett, Raffaelli (P), Ronayne (P), Scard (P), Mrs Wright (P) and Wright (P).

Also in attendance: Honorary Freeman O'Neill and Honorary Alderman Gill and Foster.

APOLOGIES

Apologies for inability to attend the meeting were submitted on behalf of Councillors Ms Ballard, Ms Diffey and Mrs Prickett.

MINUTES

COUNCIL RESOLVED: That the Minutes of the meeting of the Council held on 14 December 2016 and the Extraordinary meeting of the Council held on 30 January 2017 be confirmed and signed.

MAYOR'S COMMUNICATIONS

The Mayor advised that on Saturday in Falklands Garden there would be a welcome home for Freeman of the Borough Alex Thomson who reached the finish line of the Vendée Globe on his boat HUGO BOSS on 20th January in just 74 days and in doing so broke his own British record of 80 days for the fastest solo sail round the world in a monohull.

Alex Came 2nd overall out of 29 boats. There will be a Parade of Sail From 1015 – 1100 from the Spitbank Fort and around Portsmouth Harbour and will bring Hugo Boss alongside the Ferry pontoon at 11am for the welcome back to Gosport.

DEPUTATIONS

There were no deputations received.

QUESTIONS PURSUANT TO STANDING ORDER 3.4

Questions standing in the name of Councillor Chegwyn on:

What discussions has the Leader had with the Leaders of Portsmouth, Fareham & Havant Councils about a Combined or Unitary Authority bid involving the four authorities following the refusal of the new Conservative administration on the Isle of Wight to support a Solent Combined Authority bid?

What action is taken against housing tenants who are consistently behind with their rent? Are tenants allowed a transfer when having rent arrears on a previous council property?

How many (i) Football, (ii) Rugby, and (iii) Cricket pitches does the Council have available for hiring by local teams? How many (i) football, (ii) rugby and (iii) cricket teams hired pitches from the Council in the past 12 months?

Were answered by the Leader of the Council and the Chairman of the Community Board.

BUSINESS PLAN UPDATE AND COUNCIL DWELLING RENTS 2017/2018

Consideration was given to a recommendation by the Community Board at its meeting held on 25th January 2017.

COUNCIL RESOLVED THAT:

- The revised HRA Business Plan extract (Appendix A) and associated 2016/17 Revised Budget and 2017/18 Budget (Appendix B) is agreed.
- That Council Dwelling rents decrease by 1% (an average of £0.83 per week), continuing the four year reduction programme as detailed in the new national rent policy introduced in April 16.
- The rent for older style garages is increased in line with inflation, as agreed in the Garage Renewal strategy.
- To increase the presently approved HRA Capital Programme by £875k (as in 2.3b of the report).

PART II MINUTES

COUNCIL RESOLVED: That the following Part II Minutes be received.

- Community Board: 25 January 2017
- Policy and Organisation Board: 7 February 2017

COUNCIL BUDGET 2017/2018

Consideration was given to a Report and addendum of the Borough Treasurer outlining the overall current and medium term financial position of the Council's General Fund, recommends a Budget for 2017/18 that maintains the financial health and resilience of the Council and proposes an associated increase in Council Tax for 2017/18 of £5 for a Band D property and equating to 7pence per week for the average Gosport property (Band B).

It was recommended that the Council approve

2.1 A Revised Budget for 2016/17 of £10,610,380 as set out in Appendix A

2.2 A Budget for 2017/18 of £10,876,940 as set out in Appendix A

2.3 Any variation arising from the final Local Government Finance Settlement be accommodated by a transfer to / from the Stability & Resilience Reserve.

2.4 That the level of Council Tax be increased by £5 per annum for a Band D property

2.5 It be noted that the Borough Treasurer has determined that the Council Tax Base for the financial year 2017/18 will be 26,409.7 [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].

2.6 That the following amounts be now calculated by the Council for the financial year 2017/18 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

(a)	£ 50,147,428	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£ 44,527,180	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£5,620,248	Being the amount by which the aggregate at 2.6 (a) above exceeds the aggregate at 2.6(b) above, calculated by the Council in accordance with

		Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B(1) of the Act.
(d)	£212.81	Being the amount at 2.6 (c) above (Item R), all divided by Item 2.5 above (Item T), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation Bands (Gosport Borough Council)

A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**
141.87	165.52	189.16	212.81	260.10	307.39	354.68	425.62

Being the amounts given by multiplying the amount at 2.6 (d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings in different valuation bands.

2.7 That it be noted that for the financial year 2017/18 Hampshire County Council is consulting upon the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire County Council)

A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**
755.40	881.30	1,007.20	1,133.10	1,384.90	1,636.70	1,888.50	2,266.20

2.8 That it be noted that for the financial year 2017/18 the Hampshire Police & Crime Commissioner is consulting upon the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Police & Crime Commissioner)

A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**

110.3 1	128.69	147.08	165.46	202.23	239.00	275.77	330.92

2.9 That it be noted that for the financial year 2017/18 Hampshire Fire and Rescue Authority are recommending the following amounts for the precept issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Fire & Rescue Authority)

A £	B £	C £	D £	E £	F £	G £	H £
42.5 6	49.65	56.75	63.84	78.03	92.21	106.40	127.68

2.10 That having calculated the aggregate in each case of the amounts at 2.6(e), 2.7, 2.8 and 2.9 above, the Council, in accordance with Sections 31A, 31B and 34 to 36 of the Local Government Finance Act 1992 as amended, hereby sets the following amounts as the amounts of Council Tax for the financial year 2017/18 for each of the categories of dwellings shown below:

Valuation Bands (Total Council Tax)

A £	B £	C £	D £	E £	F £	G £	H £
1,050. 14	1,225. 16	1,400. 19	1,575. 21	1,925. 26	2,275. 30	2,625. 35	3,150. 42

2.11 The Borough Treasurer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire County Council, Hampshire Police & Crime Commissioner and Hampshire Fire and Rescue Authority precepts.

2.12 Members have had regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003.

2.13 The Capital Programme 2016/17 to 2019/20 as set out in Appendix D is approved.

2.14 The Pay Policy Statement (Appendix E) and Member’s Allowance Scheme (Appendix F) for 2017/18 set out in section 14 of the report.

Voting was thereupon taken and the names of the Members voting for and against the Recommendation and those abstaining were read to the Council:

FOR THE RECOMMENDATION: Councillors Allen, Bateman, Mrs Batty, Beavis, Bergin Burgess, Carter, Edgar, Mrs Forder, Hook, Mrs Huggins, Mrs Furlong, Jessop, Mrs Jones, Mrs Morgan, Murphy, Philpott, Raffaelli, Ronayne, Scard, The Mayor **(21)**

AGAINST THE RECOMMENDATION: Councillors Chegwyn, Earle, Foster-Reed, Hicks, Hylands, Miss Kelly. **(6)**

ABSTENTIONS: Councillors Mrs Cully, Farr, Mrs Wright, Wright, **(4)**

COUNCIL RESOLVED: That the recommendations be approved.

APPOINTMENT OF DEPUTY REGISTRATION OFFICER

Consideration was given to a report of the Borough Solicitor and Deputy Chief Executive requesting agreement for the appointment to the role of Deputy Registration Officer.

COUNCIL RESOLVED: That pursuant to Section 8 of the representation of the People Act 1983 Graeme Jesty (Head of Electoral Services) be appointed the Council's Deputy Registration Officer.

CONSTITUTION – REPONSIBILITIES FOR FUNCTIONS AND DELEGATIONS

Consideration was given to a report and addendum of the Borough Solicitor and Deputy Chief executive reviewing the existing delegation of functions and the proposal of new arrangements for the delegation of functions.

COUNCIL RESOLVED:

That the revised Scheme of Delegations to Officers set out in Appendix 1 of the report be approved and that with immediate effect functions be delegated to the Officers named.

That delegated authority be given to the Borough Solicitor and Deputy Chief Executive to make changes to the Constitution and any other document to give effect to the Council's resolutions in respect of the report.

ELECTION OF MAYOR AND DEPUTY MAYOR 2017-2018

The Council was informed that in accordance with Standing Order 2.4 the Borough Solicitor and Deputy Chief Executive had written to Group Leaders and Members of the Council to invite Member nominations for the selection of Mayor-Elect and Deputy Mayor-Elect for the next Municipal Year.

It was reported that one nomination had been received Councillor Mrs. L M Batty for Mayor-Elect and one nomination Councillor Mrs. D.H Furlong for Deputy Mayor-Elect for the 2017-218 Municipal Year. The Council accordingly approved the nominations.

EXCLUSION OF THE PUBLIC

The Council was advised that there was an additional urgent item of business and that due to the nature of the business to be discussed the item would be exempt.

The motion was therefore proposed that in relation to the report of the Borough Solicitor and the Deputy Chief Executive, the public be excluded from the meeting as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exemptions outweighs the public interest in disclosing the information, for the reasons set out in the report.

COUNCIL RESOLVED: That in relation to the following item the public be excluded from the meeting, as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exemptions outweighs the public interest in disclosing the information, for the reasons set out in the report.

REDUNDANCY OF AN OFFICER

By reason of special circumstances, the Chairman determined that the following item be considered at this meeting notwithstanding the fact that the item had not been available for public inspection in accordance with the provisions of Section 100B(4)(a) of the Local Government (Access to Information) Act 1985.

The special circumstances were created by timescales detailed in the report.

Consideration was given to a report of the Borough Solicitor and Deputy Chief Executive recommending the redundancy of an officer.

COUNCIL RESOLVED: That the recommendations in the report be approved.

The meeting concluded at 7.05pm

The Mayor.

A MEETING OF THE COMMUNITY BOARD
WAS HELD ON 8 MARCH 2017 AT 6PM

The Mayor (Councillor Mrs Hook) (ex-officio), Councillor Hook (ex-officio) (P), Councillors Mrs Batty (P), Bateman (P), Burgess (P), Earle (P), Mrs Huggins (P), Hylands (P) Mrs Jones (P), Miss Kelly (P), Mrs Morgan (P), Murphy (P), Ronayne (P), Scard (P), Mrs Wright (P), Wright (P)

PART II

35. DOG CONTROL PUBLIC SPACE PROTECTION ORDER

Consideration was given to a report and addendum of the Borough Solicitor which advised the Community Board of the responses received to the consultation exercise on the proposed Public Spaces Protection order (PSPO) for the control of dogs (Dog PSPO).

Mr Forehead was invited to address the Board and advised Members that he was a professional dog trainer based in Cooperage Green. Mr Forehead thanked the Council for their willingness to listen to members of the public throughout the consultation process and advised that he welcomed most of the proposals and that they did please the majority of people.

Mr Forehead advised the Board that it was well documented that dogs played an important role in people's lives and provided companionship. Mr Forehead added that most responsible dog owners had at one time or another picked up other irresponsible dog owners dog faeces and felt that as a Council more engagement was required to educate people. Mr Forehead further added that he felt Gosport Borough Council failed to show a visible presence to deter people from not picking up their dog faeces.

In conclusion, Mr Forehead asked that the Council look into schemes to promote dog ownership so that people could enjoy open spaces and encourage the town to be dog friendly, which he felt would create extra tourism.

Members were advised by the Legal Officer that there was nothing further to add to the report however an addendum had been circulated which highlighted some further changes to Appendix A. These changes were:

- Paragraph 3.3 would now read: "Not being aware of the defecation or not having a device for or suitable means to removing the faeces shall not be a reasonable excuse for failing to remove it"

- Paragraph 8.1 (a) to now read: "he has a reasonable excuse for doing so".

A Member queried what policing would be in place to enforce the new proposals and the Chairman of the Board advised that Gosport Borough Council Enforcement Officers would visit problematic areas more frequently and issue fixed penalty notices to people caught in the act of not picking up faeces. The Chairman further added that members of the public could work with the Council and contact streetscene at any time to report instances of dog fouling.

Following a question regarding responses received from non-dog owners on the maximum number of dogs to be taken on a lead the Legal officer advised that this breakdown had not been collated.

The Chairman of the Board advised that the Council had listened to members of the public and were happy for dogs to be permitted in local areas and only excluded from enclosed children's play areas which had fixed playing equipment or apparatus installed. He further advised that the general consensus of the consultation had indicated that members of the public were happy with the proposed plan to restrict the number of dogs a person may exercise at any one time from six to four.

A Member raised concerns with the proposal to restrict the number of dogs that a person was allowed to exercise and stated that different dogs had different temperaments and that there should be no arbitrary number to the controlling of dogs. He therefore proposed an amendment to the report as follows:

> That any person when exercising or walking a number of dogs would be required to have sufficient control, such that the dogs did not represent a danger or cause harm to themselves, the person walking the dogs or other members of the public. This proposal was seconded.

Following the proposed amendment a discussion took place and it was felt by Members that a balance was needed in order to protect both the public and dog owners. It was also recognised that Gosport was a high density populated area and that 1 in 4 households were dog owners. It was further discussed that encouragement should be given to dog walking to improve health and wellbeing.

Following Members debate a Member put forward a proposed amendment to the report as follows:

> That Gosport Borough Council investigates the possibility of an education scheme for responsible dog ownership

Members took a vote on the first amendment and this was subsequently lost.

Members took a vote on the second amendment and it was subsequently agreed that investigations take place to support a dog education scheme.

Councillor Hylands asked for it to be noted that although he agreed with the other proposals suggested, he could not agree to the restriction to the maximum number of dogs a person may exercise at any one time.

RESOLVED: That the Community Board:

- notes the responses received in response to the consultation exercise on the proposals for a Dog PSPO.

- adopts a Dog PSPO commencing on 1st May 2017 for a period of three years (in the form of Appendix A) with the same dog control measures proposed in the consultation save:

i. dogs shall be only excluded from sports pitches whilst in use for organised events;

ii. dogs shall only be excluded from enclosed children's play areas which have fixed playing equipment or apparatus installed NB this shall not extend to local areas for play;

iii. there shall be no requirement for a person in charge of three or more dogs to keep no more than two off lead at any one time

- The Borough Solicitor shall have delegated authority to take the necessary steps for the Dog PSPO to take effect including publicity requirements and correction of any clerical errors; and

- Investigates an education scheme for responsible dog ownership.

36. ANY OTHER BUSINESS

There was no other business

The meeting concluded at 18:38

CHAIRMAN

A MEETING OF THE ECONOMIC DEVELOPMENT BOARD WAS HELD ON 15 MARCH 2017

The Mayor (Councillor Mrs Hook) (ex-officio), Councillors Hook (P), Ms Ballard (P), Bateman (P), Beavis (P), Ms Diffey (P), Edgar (P), Farr (P), Mrs Forder, Mrs Furlong (P), Mrs Huggins (P) , Miss Kelly (P), Philpott (P), Mrs Prickett (P), Raffaelli (P), Mrs Wright .

It was reported that in accordance with Standing Order 2.3.6 Councillors Hook and Mrs Cully had been nominated to replace Councillor Mrs Forder and Mrs Wright respectively for this meeting.

PART II

51. PROVISION OF ENERGY SERVICES

Consideration was given to the report of the Housing Services Manager updating the Board on the provision of energy services for Gosport Borough Council.

The Board was advised that since the publication of the report a date in April had been agreed for the installation of the solar panels on the roof space of the Town Hall and sheltered scheme accommodation. The Board were also advised that there will be promotion via Coastline and At Your Service to promote the GBC energy switching website.

Members advised that residents welcomed the scheme and welcomed the opportunity to save money.

The details of the installation were provided to Members, and they were advised that the panels would be owned by Portsmouth City Council but that Gosport Borough Council would save money as they would be able to purchase the energy at a reduced rate.

Members also welcomed the reduction in communal energy cost for tenants of properties with panels.

The Board was advised that commission received by Gosport Borough Council would be paid by the energy suppliers and that this would not be at a cost to residents. The Board were advised that energy saving advice was provided by an external provider and that service level agreements would be in place to ensure that support was provided to residents that needed it.

Members welcomed that the changes had been implemented in the short time since the agreement for the provision of services by the Portsmouth City Council’s energy services team had been agreed. It was recognised that savings were being made and that residents were benefiting from the scheme which was particularly helpful for the most vulnerable residents.

Members were advised that the promotion of the energy switch scheme to their ward residents would be welcome.

Members acknowledged that utilising the expertise of officers at Portsmouth City Council had allowed for savings in the Borough and that as a result residents would benefit and save money.

RESOLVED: That the report of the Housing Services Manager be noted and the board would receive a update in six months.

52. ACQUISITION OF LAND AT CARLESS CLOSE

Consideration was given to a report of the Housing Services Manager seeking Board approval for acquisition of an area of open space from Places for People Homes Limited (as shown hatched red on plan at Appendix A of the report)

Members were advised that the exercise of processing land acquisitions was nearly complete.

RESOLVED: That the acquisition of an area of open space from Places for People Homes Limited, (as shown hatched red on plan at Appendix A of the report of the Housing Services Manager) under a dedication agreement be approved.

53. LEASE OF LAND AND BUILDING AT LEE RECREATION GROUND TO THE 1ST LEE ON THE SOLENT SCOUT GROUP

Consideration was given to a report seeking Board approval for the leasehold disposal of land and buildings at Lee Recreation Ground to the Trustees of the 1st Lee-on-the-Solent Scout Group. Members welcomed the proposal as the toilets had been empty for some time.

The Board was advised that the wording of paragraph 2.4 of the report of the Housing Services Manager needed to be amended for clarity, and that it should read that;

The Council does not intend to be prescriptive in regard to the use of the building, whether it be used as a store or demolished and the extra space used for off-road parking.

The Board was advised that the building had been offered to Lee Horticultural Society but that it had not accepted the offer.

RESOLVED: That the proposed new lease of land and buildings at Lee Recreation Ground to the ‘Scout Group’ be approved and that the Housing Services Manager be authorised to finalise terms for the lease of land and buildings at Lee Recreation Ground and the Head of Legal Services be authorised to enter into such documentation as is necessary to effect the decision.

The meeting concluded at 6.16pm

CHAIRMAN

Agenda item no 7

Report to:	**COUNCIL**
Meeting date:	**29 MARCH 2017**
Title:	**TREASURY MANAGEMENT & PRUDENTIAL INDICATORS 2017/18**
Originator:	**BOROUGH TREASURER**
Status	**FOR DECISION**

Purpose

This report outlines the Council's prudential indicators for 2017/18 to 2019/20, together with the expected treasury operations for this period. It fulfils a key legislative requirement.

Recommendations

Council is recommended to approve:

- The Prudential Indicators as identified in 2.1
- Minimum Revenue Provision Policy, as identified in 2.2
- The Treasury Management Strategy, as identified in 2.3

1.0 BACKGROUND

1.1 Overview

1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus cash is invested in low risk counterparties or instruments commensurate with the Council's low risk policy, providing adequate liquidity initially before considering investment return. This is in accordance with the Government's Guidance on Local Government Investments which set out that investment priorities will be security first, liquidity second and then return. Any cash deficits will be funded from approved sources.

The overall aim is to broaden the investment strategy of the Council by increasing the number of counterparties the Council can invest with, without taking additional risk.

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

1.1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

1.2 Reporting requirements

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

1.2.2 Prudential and Treasury Indicators and Treasury Strategy (this report) **-** the first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;

1.2.3 A Mid Year Treasury Management Report – this will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting its objectives or whether any policies require revision

1.2.4 An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

The latter two reports are combined and jointly reported in September.

1.3 The Prudential Indicators 2017/18 – 2019/20

1.3.1 The prudential indicators contained within this report are required by CIPFA’s Prudential Code and are designed to support and record local decision making in a transparent and accountable manner. They cover

- **Capital Expenditure**
  - Capital expenditure and capital financing requirement (paragraphs 2.1.1 & 2.1.2)
- **Affordability**
  - Ratio of financing costs to net revenue stream (paragraph 2.1.3)

    - Incremental impact of capital investment decisions on the council tax and Housing Rents (paragraphs 2.1.4 & 2.1.5)
- **Prudence**
    - Gross debt and capital financing requirement (paragraph 2.1.6)
- **Treasury Indicators**
    - Operational boundary (paragraph 2.1.7)
    - Authorised limit (paragraph 2.1.8)
- **Treasury Management**
    - Adoption of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes which is demonstrated by the issues covered in this report

1.4 Annual Minimum Revenue Provision Statement

1.4.1 The Council's agreed policy for calculating the annual amount charged to the revenue budget to repay capital expenditure financed by debt para 2.2.

1.5 Treasury Management Strategy for 2017/18

1.5.1 The strategy for 2017/18 (set out in section 2.3) includes the following areas:

- Economic Outlook and prospects for interest rates (para 2.3.1)
- Borrowing strategy (para 2.3.2)
- Policy on borrowing in advance of need (para 2.3.3)
- Debt rescheduling (para 2.3.4)
- Investment strategy (para 2.3.5)
- Treasury indicators which limit the treasury risk and activities of the Council (para 2.3.6)
- Other Items (para 2.3.7)

1.5.2 These elements 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.

2.0 REPORT

2.1 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year. The Council's capital expenditure plans are the 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 overview and confirm capital expenditure plans.

2.1.1 Capital expenditure

This Prudential Indicator for Capital Expenditure is a summary of the Council's capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need e.g. borrowing. The capital programme reflected in the table below was approved by Full Council on 8th February 2017.

Capital Expenditure and Financing	2015/16 Actual £'000	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Expenditure					
Community Board	1,000.0	3,305.0	3,218.5	960.5	880.0
Economic Development Board	60.2	27.0	0.0	0.0	0.0
Policy and Organisation Board	349.5	477.0	245.0	215.0	175.0
Non-HRA	**1,409.7**	**3,809.0**	**3,463.5**	**1,175.5**	**1,055.0**
HRA	**4,477.7**	**5,349.0**	**3,895.0**	**2,300.0**	**2,300.0**
Total	**5,887.4**	**9,158.0**	**7,358.5**	**3,475.5**	**3,355.0**
Financing					
Capital Receipts	123.2	930.0	492.0	621.0	625.0
Capital grants & contributions	991.2	1,408.0	1,461.0	617.0	617.0
Capital Reserves	0.0	0.0	0.0	0.0	0.0
HRA (MRA)	2,407.3	2,450.0	2,450.0	2,300.0	2,300.0
HRA (Reserves / Revenue)	2,070.4	2,899.0	1,445.0	0.0	0.0
Net financing need for the year	**295.3**	**1,471.0**	**1,510.5**	**(62.5)**	**(187.0)**

Other long term liabilities - the above borrowing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.1.2 The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for capital purposes i.e. it is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) which is the statutory annual charge to the Revenue Budget reduces the CFR. The annual MRP charged to the Revenue Budget is required to be determined on a "prudent" basis and is broadly based on making a charge sufficient to cover the amount borrowed for assets over the life of those assets.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Capital Financing Requirement	2015/16 Actual £'000	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Financing Requirement					
CFR - Non Housing	18,574.6	19,688.3	20,830.5	20,413.8	19,871.8
CFR - Housing	62,129.7	62,017.0	61,900.3	61,779.5	61,654.5
Total CFR	**80,704.3**	**81,705.3**	**82,730.8**	**82,193.3**	**81,526.3**
Net movement in CFR	**(564.3)**	**1,001.0**	**1,025.5**	**(537.5)**	**(667.0)**
Movement in CFR is represented by					
Net financing need for the year	295.3	1,471.0	1,510.5	(62.5)	(187.0)
* Less MRP/VRP/other movements	(859.6)	(470.0)	(485.0)	(475.0)	(480.0)
Movement in CFR	**(564.3)**	**1,001.0**	**1,025.5**	**(537.5)**	**(667.0)**

***from** the 2016/17 revised MRP is calculated on an annuity basis as described in para. 2.2

2.1.3 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.

%	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	7.7%	5.0%	5.2%	5.4%	4.9%
HRA	29.7%	30.2%	30.8%	30.0%	30.3%

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

2.1.4 Incremental impact of capital investment decisions on council tax

This indicator is the estimate of the incremental impact on Band D Council Tax of capital programme decisions past and present, including treasury management cash flows, as included in the budget report. The assumptions are based on the budget, but will invariably include some estimates, such as the level of future Government support.

£			2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council Tax - Band D			**£1.53**	**(£0.68)**	**(£1.98)**

2.1.5 Incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the estimated trend in the cost of housing capital programme decisions included in the budget report, including treasury management cash flows, expressed as an impact on weekly rent levels. This indicator includes the revenue impact on any newly proposed changes, although any end impact will be influenced by government rent controls

£			2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly Housing Rents			£0.13	(£0.88)	£0.00

2.1.6 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for capital purposes, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

The Council’s treasury portfolio position at 31 March 2016, with forward projections are summarised below. Total debt is expected to remain below the CFR during the forecast period i.e. the Council is maintaining an under borrowing position. However, should the interest rate climate change in such a way that investment rates and borrowing rates narrow or there is an expectation of significantly rising long term borrowing rates, then conditions may be such that it is advantageous for the Council to "lock into" long-term low interest borrowing. This will remain under review.

Portfolio Position	2015/16 Actual £'000	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
External Debt	74,825.0	71,490.0	70,449.0	69,801.0	69,301.0
Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0
Gross Debt at 31 March	**74,825.0**	**71,490.0**	**70,449.0**	**69,801.0**	**69,301.0**
CFR	**80,704.3**	**81,705.3**	**82,730.8**	**82,193.3**	**81,526.3**
Under / (over) borrowing	**5,879.3**	**10,215.3**	**12,281.8**	**12,392.3**	**12,225.3**

2.1.7 The Operational Boundary for External Debt

The operational boundary is based on the Council’s estimate of most likely (i.e. prudent but not worst case) scenario for external debt and is not normally expected to be exceeded. It links directly to the Council’s estimates of capital expenditure, capital financing requirement and cash flow requirements.

Operational boundary		2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
		81.7	85.3	85.7	86.5

2.1.8 The Authorised Limit for external debt

The authorised limit is the affordable borrowing limit. It is the maximum amount of debt that the council can legally enter into and this limit needs to be set or revised by the full Council. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit		2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
		87.9	91.4	91.5	92.3

The Council is also limited to a maximum HRA CFR through the HRA self-financing regime, this is known as the HRA debt limit or debt cap..

HRA debt limit		2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
		63.067	63.067	63.067	63.067

2.2 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

2.2.1 BACKGROUND

Local authorities are required to set aside prudent revenue provision for debt repayment where they have used borrowing or credit arrangements to finance General Fund capital expenditure.

Statutory Guidance covering the Minimum Revenue Provision (MRP) sets out various options for calculating a prudent provision – and while prudent provision is not specifically defined, the guidance suggests that debt should be repaid over a period that is commensurate with that over which the capital expenditure provides benefits

The statute and regulations with regard to MRP are covered in The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and the Capital Finance Guidance on Minimum Revenue Provision (February 2012) issued by the Department for Communities and Local Government

In general the guidance suggests that:

- MRP on all capital expenditure incurred before 1 April 2008, and on expenditure funded by supported borrowing thereafter, is equal to 4% of the opening Capital Financing Requirement with some optional adjustments
- MRP on expenditure incurred from April 2008 onwards that is funded by unsupported prudential borrowing should be calculated by reference to the asset's useful life, using either a straight line or an annuity method, starting in the year after the asset becomes operational;
- MRP on assets acquired through finance leases and Private Finance Initiative (PFI) should be equal to the cash payments that reduce the outstanding liability each year.

The guidance does, however, provide flexibility to adopt other methods if a local authority considers that it is prudent to do so

There is no requirement on the HRA to make a minimum revenue provision.

2.2.2 EXISTING POLICY

Local Authorities are required to publish an annual MRP policy statement outlining how prudent provision is to be made and to obtain approval of that statement by full Council in advance of the year to which it relates. The Council's MRP policy statement is set out in the annual Treasury Management Strategy report and was last approved at full Council in February 2016.

The MRP policy approved in February 2016 was

- For capital expenditure incurred before 1 April 2008, MRP will be based on the Regulatory Method, an extension of the then existing policy. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- For unsupported borrowing (including PFI and finance leases) after 1 April 2008, MRP will be based on the Asset Life Method with MRP starting in the year following the year in which the asset becomes operational. This option provides for a reduction in the borrowing need broadly evenly over the asset's life.

2.2.3 PROPOSED POLICY AND IMPLICATIONS

The statutory guidance prescribes that a Local Authority needs to set aside a "prudent amount" and until recently, the Local Government Sector has generally interpreted this as being restricted to the options provided within the regulations

However, many authorities in the Local Government Sector are now challenging the application of the "prudent amount" definition, seeking an approach that is better designed to local circumstances in the wider sense of prudence. Local Government have investigated options that still adhere to the principle of making a prudent revenue provision for the repayment of debt but have also sought to reprofiles the annual revenue charge by freeing up scarce revenue resources in earlier years and making larger payments in later years when the burden of that cost has been eroded by inflation and therefore is lower in real terms.

It is recommended that the MRP policy is changed so that the Annuity Method is adopted from 1 April 2016 as the most appropriate method for the setting aside of a Minimum Revenue Provision for repayment of debt.

This approach has the following features

- The annuity method makes provision for an annual charge to the General Fund which, unlike the current Straight Line method, takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

- The annuity method also better matches the profile of the assets consumption over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the DCLG "Meaning of Prudent Provision" which provide that "debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits".

- It reduces the annual amount required to be set aside over the medium term commencing with a £0.2m saving in 2016/17 and reducing for approximately 20 years and then rising gently thereafter by which time the real value of the debt provision to be set aside will have been significantly eroded by inflation

- Making the case for the Annuity Method means that the Council does not need to set aside sums at the current levels. The Council can make the further case that it has set aside sums in the past, amounting cumulatively to approximately £1.9m that were in excess of what was required. On that basis, the Council would wish to "prudently" release that "overprovision" back to support the Council's strategic and service aspirations.

The Council has put the case to its external auditors that the Annuity Method is the most appropriate method for the setting aside of its Minimum Revenue Provision on all debt and that an overprovision has therefore been made prior to 2016/17. This has been agreed by the Council's auditors. It is yet to be agreed how the overprovision can be released, it needs to be prudently used and at a prudent level and it is likely that the overpayment would be released annually and not less than over a 4 year period.

2.3 Treasury Management Strategy

2.3.1 Economic Outlook and prospects for interest rates

The Council uses Arlingclose Limited as its treasury advisor and the following is their view of the economic outlook and interest rates

The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates early 2017. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcome of Italy's referendum on its constitution heralding a period of uncertainty for Italy, the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook: Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and

Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however continue to fall.

Interest rate forecasts :.

	Bank Rate %	**PWLB Borrowing Rates % (including certainty rate adjustment)**			
		5 year	**10 year**	**20 year**	**50 year**
Jan-16	0.25				
Mar-17	0.25	1.40	1.85	2.40	2.20
Jun-17	0.25	1.30	1.80	2.35	2.15
Sep-17	0.25	1.25	1.70	2.25	2.15
Dec-17	0.25	1.25	1.70	2.25	2.15
Mar-18	0.25	1.30	1.75	2.30	2.20
Jun-18	0.25	1.30	1.75	2.30	2.20
Sep-18	0.25	1.30	1.75	2.30	2.20
Dec-18	0.25	1.35	1.80	2.35	2.45
Mar-19	0.25	1.40	1.85	2.40	2.30
Jun-19	0.25	1.45	1.90	2.45	2.35
Sep-19	0.25	1.50	1.95	2.50	2.40
Dec-19	0.25	1.55	2.00	2.55	2.45
Mar-20	0.25	1.60	2.05	2.60	2.50
Average rate	0.25	1.38	1.83	2.38	2.28

In summary

- Investment returns are likely to remain relatively low during 2017/18 and beyond;
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a low possibility of a drop to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.
- The policy of avoiding new borrowing by running down spare cash balances will continue, however, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when the Council may not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

2.3.2 Borrowing Strategy

The Council is currently maintaining an under-borrowed position being under borrowed by £5.9m at the 31/03/2016. The underborrowing is forecast to increase to

£12.3m by 31/03/2018 (see paragraph 2.1.6). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully financed 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 forecasts are for only a modest increase in interest rates, investment returns remaining low and counterparty risk remaining relatively high.

Objectives: The Council'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 Council'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 Council'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 Council 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 modestly.
The Council will undertake a 'cost of carry' and breakeven analysis to determine whether to borrow additional sums at long-term fixed rates in 2017/18 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.

The approved sources of long term and short term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Banks or building societies authorised to operate in the UK
- Money Market Loans
- Other public bodies e.g. other Local Authorities
- UK public and private sector pension funds
- 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

2.3.3 Policy on borrowing in advance of need

The Council may from time to time borrow in advance of need, where this is expected to provide the best long term value for money and the Council can ensure the security of such funds. The Borough Treasurer may do this under delegated power where, for instance, a sharp rise or fall 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.

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.

2.3.4 Debt rescheduling

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).

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).

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.

Any rescheduling undertaken will be reported to Policy and Organisation Board.

2.3.5 INVESTMENT STRATEGY

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £12m and £20m, but this is expected to reduce to lower levels in the forthcoming year as the Council does not intent to fully refinance existing loan maturities preferring instead to increase its temporary funding of the Capital programme from existing funds i.e. become more under-borrowed.

- 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 or a foreign country with a sovereign rating of AA or higher for direct investment.

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Approved Counterparties: The Council may invest surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks / Building Societies Un Secured	Banks / Building Societies Secured	UK Government / Local Authorities	Corporates	Registered Providers
UK GOVT	n/a	n/a	Unlimited 5 years	n/a	n/a
AAA	£2m 2 years	£3m 5 years	£3m 5 years	£2m 5 years	£2m 5 years
AA+	£2m 2 years	£3m 5 years	£3m 5 years	£2m 5 years	£2m 5 years
AA	£2m 2 years	£3m 5 years	£3m 5 years	£2m 5 years	£2m 5 years
AA-	£2m 2 years	£3m 3 years	£3m 5 years	£2m 3 years	£2m 5 years
A+	£2m 2 years	£3m 3 years	£3m 5 years	£2m 3 years	£2m 5 years
A	£2m 13 months	£3m 2 years	£3m 5 years	£2m 2 years	£2m 5 years
A-	£2m 6 months	£3m 13 months	£3m 5 years	£2m 13 months	£2m 5 years
None	None	None	£3m 5 years[1]	None	None
Pooled Funds	£3m per fund				

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poors. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

No country limit will apply to investments in UK banks or building society. It is recommended that an aggregate limit for Investments outside the UK be applied of £8million and that in order to minimise the sytemic credit risk of investments in any region it is recommended that a £4million limit be applied to the following geographical areas where investments can be made in foreign countries.

- Asia & Australia
- Americas
- Eurozone
- Continental Europe outside the Eurozone

[1] Not all Local Authorities are credit rated by the credit rating agencies; however from a credit perspective Local Authorities are considered low risk.

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

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

Government / Local Authorities: Loans, bonds and bills issued or guaranteed by UK government, regional and local authorities. These investments are not subject to bail-in, and there is an insignificant risk of insolvency.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of any of the above investment types and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
Bond and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's Investment objectives will be monitored regularly.

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

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced.

Other Information on the Security of Investments : the Council understands that credit ratings are useful, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swaps, share prices, information on government support for banks and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of AAA or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Non specified investment will be restricted to

- Long term investments with the total amount of these investments limited to £9 million
- Investments without credit rating or rated below [A-] will be limited to £3 million (this will be limited to instant access deposits with the Council’s bankers (National Westminster).

2.3.6 TREASURY MANAGEMENT CODE INDICATORS

2.3.6.1 Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate exposures, expressed as the proportion of gross principal borrowed/invested will be:

Interest rate exposures		2017/18 Upper £'000	2018/19 Upper £'000	2019/20 Upper £'000
Limits on fixed interest rates:	Borrowing only	100%	100%	100%
	Investments only	100%	100%	100%
Limits on variable interest rates:	Borrowing only	15%	15%	15%
	Investments only	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable. The principal limit on fixed interest rate investments will be £9 million.

2.3.6.2 Maturity Structure of Borrowing

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

Maturity structure of fixed interest rate borrowing	2017/18 Lower	2017/18 Upper
Under 12 months	4%	9%
12 months to 2 years	2%	12%
2 years to 5 years	13%	23%
5 years to 10 years	19%	33%
10 years and above	40%	64%

(NB Time periods start on the first day of each financial year)

2.3.6.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the year end will be:

Maximum principal sums invested >364 days	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Principal sums invested > 364 days	9.0	9.0	9.0

2.3.7 OTHER ITEMS

2.3.7.1 Investment Training

The training needs of the officers involved on treasury management are identified through the annual personal review process, and additionally when the responsibilities of individual members of staff change. Staff attend relevant training courses, seminars and conferences.

Member training and briefing sessions have taken place in September 2011 (delivered by officers), January 2012 (delivered by Capita) and most recently in February 2015 (delivered by Capita).

2.3.7.2 Treasury management consultants

The Council have appointed Arlingclose Limited as its external treasury management advisors and they provide a range of services to the Council including:

- Investments advice
- Borrowing advice
- Technical support on treasury matters and capital finance issues
- Economic and interest rate analysis
- Training and briefing sessions

The contract with Arlinclose commenced July 2016 and is for an initial period of 3 years.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

2.3.7.3 Policy on Apportioning Interest to the HRA

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools the later included £57million borrowed on the 28th March 2012 to make a payment to the Government under the HRA Self Financing scheme. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans and the HRA’s underlying need to borrow will be charged an interest from the General Fund equivalent to the General Funds average interest on borrowing. HRA balance sheet resources available for investment will result in a notional cash balance which will receive the Council’s average interest rate on investments, adjusted for credit risk.

3.0 CONCLUSION

The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances in line with the relevant CIPFA and CLG guidance. The low risk nature of the Council’s current policy is consistent with the current economic climate.

Financial implications:	As contained in the report.
Legal implications:	It is a legal requirement that an annual Treasury Management report is considered by the Council.
Service Improvement Plan implications:	This report is required in order that to fulfil statutory requirements associated with the achievement of both service improvement plan and corporate plan targets.
Corporate Plan:	
Risk Assessment:	As contained in the report
Background papers:	
Author:	Borough Treasurer