BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

TUESDAY 28TH FEBRUARY 2017 AT 4.30 P.M.

PARKSIDE COMMITTEE - PARKSIDE

MEMBERS: Councillors G. N. Denaro (Leader), K.J. May (Deputy Leader), C. B. Taylor, R. D. Smith and P. J. Whittaker

AGENDA

1. To receive apologies for absence

2. Declarations of Interest

   To invite Councillors to declare any Disclosable Pecuniary Interests or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.

3. Pay Policy Statement 2017/18 (Pages 1 - 12)

4. Treasury Management Strategy Statement and Investment Strategy 2017/18 to 2018/19 (Pages 13 - 36)

5. Council Tax Resolutions 2017/18 (To Follow)

6. To consider any other business, details of which have been notified to the Head of Legal, Equalities and Democratic Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting

K. DICKS
Chief Executive

Parkside
Market Street
BROMSGROVE
Worcestershire
B61 8DA
20th February 2017

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BROMSGROVE DISTRICT COUNCIL

CABINET

28th February 2017

PAY POLICY STATEMENT 2017/18

Relevant Portfolio Holder	Cllr Denaro
Portfolio Holder Consulted	Yes
Relevant Head of Service	Deb Poole, Head of Transformation and Economic Development
Ward(s) Affected	n/a
Ward Councillor(s) Consulted	n/a

1. SUMMARY OF PROPOSALS

To enable Members to approve the Pay Policy for 2017/18

2. RECOMMENDATIONS

The Committee is asked to RECOMMEND to Council that

the Pay Policy as detailed in Appendix 1 to the report be approved.

3. KEY ISSUES

3.1 The Localism Act requires English and Welsh local authorities to produce a Pay Policy statement ('the statement'). The Act requires the statement to be approved by Full Council and to be adopted by 31st March each year for the subsequent financial year. The Pay Policy Statement for the Council is included at Appendix 1.

The Statement must set out policies relating to-

(a) The remuneration of its chief officers,
(b) The remuneration of its lowest-paid employees, and
(c) The relationship between-
 (i) The remuneration of its chief officers, and
 (ii) The remuneration of its employees who are not chief officers.

The provisions within the Localism Act bring together the strands of increasing accountability, transparency and fairness in the setting of local pay.

Financial Implications

3.2 All financial implications have already been included as part of the budget setting process and posts are fully budgeted for.

Legal Implications

3.3 These are already included in the report

Service / Operational Implications

3.4 There are no implications in relation to this report

Customer / Equalities and Diversity Implications

3.5 There are no implications in relation to this report

4. RISK MANAGEMENT

There are no implications in relation to this report

5. APPENDICES

Appendix 1 - Pay Policy 2017/18

AUTHOR OF REPORT

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APPENDIX 1

BROMSGROVE DISTRICT COUNCIL
PAY POLICY STATEMENT

Introduction and Purpose

1. Under section 112 of the Local Government Act 1972, the Council has the "power to appoint officers on such reasonable terms and conditions as authority thinks fit". This pay policy statement sets out the Council's approach to pay policy in accordance with the requirements of Section 38 of the Localism Act 2011. It shall apply for the financial year 2017 – 2018 and each subsequent financial year, until amended.

2. The purpose of the statement is to provide transparency with regard to the Council's approach to setting the pay of its employees by identifying;

   a. the methods by which salaries of all employees are determined;
   b. the detail and level of remuneration of its most senior staff i.e. 'chief officers', as defined by the relevant legislation;
   c. the Committee(s) responsible for ensuring the provisions set out in this statement are applied consistently throughout the Council and for recommending any amendments to the full Council

3. Once approved by the full Council, this policy statement will come into immediate effect and will be subject to review on a minimum of an annual basis, in accordance with the relevant legislation prevailing at that time.

Legislative Framework

4. In determining the pay and remuneration of all of its employees, the Council will comply with all relevant employment legislation. This includes the Equality Act 2010, Part Time Employment (Prevention of Less Favourable Treatment) Regulations 2000, The Agency Workers Regulations 2010 and where relevant, the Transfer of Undertakings (Protection of Earnings) Regulations. With regard to the equal pay requirements contained within the Equality Act, the Council ensures there is no pay discrimination within its pay structures and that all pay differentials can be objectively justified through the use of equality proofed Job Evaluation mechanisms. These directly relate salaries to the requirements, demands and responsibilities of the role.

Pay Structure

5. The Council's pay and grading structure comprises grades 1 – 11. These are followed by grades for Managers 1 - 2, Head of Service 1, Head of Service 2, Head of Service 3, Executive Director, Deputy Chief Executive and then Chief Executive; all of which arose following the introduction of shared services with Redditch Borough Council.

6. Within each grade there are a number of salary / pay points. Up to and including grade 11 scale, at spinal column point 49, the Council uses the nationally negotiated pay spine. Salary points above this are locally determined. The Council's Pay structure is set out below. This includes the increases for grade 1-11 as agreed by the National Joint Council for 2017.

Grade	Spinal Column Points		Nationally determined rates	
			Minimum £	Maximum £
1	6	9	15,014	15,375
2	9	14	15,375	16,781
3	13	17	16,491	17,722
4	17	22	17,722	20,660
5	21	25	20,138	22,659
6	25	30	22,659	26,822
7	30	36	26,822	31,601
8	35	40	30,784	35,444
9	39	43	34,538	38,236
10	42	46	37,306	41,025
11	45	49	40,557	43,821
Manager 1	Hay evaluated	43%	53,055	55,218
Manager 2	Hay evaluated	45%	55,218	57,530
Head of Service 1	Hay evaluated	51%	63,099	65,675
Head of Service 2	Hay evaluated	61%	75,719	78,810
Head Of Service 3	Hay evaluated	68%	84,476	87,567
Executive Director	Hay evaluated	74%	91,687	95,293
Deputy Chief Executive	Hay evaluated	80%	98,980	103,020
Chief Executive	Hay evaluated	100%	123,725	128,775

7. All Council posts are allocated to a grade within this pay structure, based on the application of a Job Evaluation process. Posts at Managers and above are evaluated by an external assessor using the Hay Job Evaluation scheme. Where posts are introduced as part of a shared service, and where these posts are identified as being potentially too ‘large’ and ‘complex’ for this majority scheme, they will be double tested under the Hay scheme, and where appropriate, will be taken into the Hay scheme to identify levels of pay. This scheme identifies the salary for these posts based on a percentage of Chief Executive Salary (for ease of presentation these are shown to the nearest whole % in the table above).Posts below this level (which are the majority of employees) are evaluated under the “Guage” Job Evaluation process..

8. In common with the majority of authorities the Council is committed to the Local Government Employers national pay bargaining framework in respect of the national pay spine and annual cost of living increases negotiated with the trade unions.

9. All other pay related allowances are the subject of either nationally or locally negotiated rates, having been determined from time to time in accordance with collective bargaining machinery and/or as determined by Council policy. In determining its grading structure and setting remuneration levels for all posts, the Council takes account of the need to ensure value for money in respect of the use of public expenditure, balanced against the need to recruit and retain employees who are able to meet the requirements of providing high quality services to the community; delivered effectively and efficiently and at all times those services are required.

10. New appointments will normally be made at the minimum of the relevant grade, although this can be varied where necessary to secure the best candidate. From time to time it may be necessary to take account of the external pay market in order to attract and retain employees with particular experience, skills and capacity. Where necessary, the Council will ensure the requirement for such is objectively justified by reference to clear and transparent evidence of relevant market comparators, using appropriate data sources available from within and outside the local government sector.

11. For staff not on the highest point within the salary scale there is a system of annual progression to the next point on the band.

Senior Management Remuneration

12. For the purposes of this statement, senior management means ‘chief officers’ as defined within S43 of the Localism Act. The posts falling within the statutory definition are set out below, with details of their basic salary as at 1st April 2017 (assuming no inflationary increase for these posts).

13. Bromsgrove District council is managed by a senior management team who manage shared services across both Redditch Borough and Bromsgrove District

Councils. All of the posts listed below have been job evaluated on this basis, with the salary costs for these posts split equally between both Councils.

Title	% of Chief executive salary	Pay range (minimum) £	Pay range (maximum) £	Incremental points	*Cost to Redditch Borough Council £*
Chief Executive	100%	123,725	128,775	3	*64,388*
Deputy Chief Executive	80%	98,980	103,020	3	*51,510*
Executive Director of Finance and Resources. (Also S151 Officer)	74%	91,687	95,293	3	*47,647*
Head of Worcestershire Regulatory Services	68%	84,476	87,567	3	*This is a shared post across 6 district Authorities at a cost of £14,595 each*
Head of Customer Access and Financial Support	61%	75,719	78,810	3	*39,405*
Head of Planning and Regeneration	61%	75,719	78,810	3	*39,405*

Head of Transformation and Organisational Development	61%	75,719	78,810	3	*39,405*
Head of Legal, Equalities and Democratic Services	61%	75,719	78,810	3	*39,405*
Head of Environmental Services	61%	75,719	78,810	3	*39,405*
Head of Leisure and Cultural Services	61%	75,719	78,810	3	*39,405*
Head of Community Services	61%	75,719	78,810	3	*39,405*

Recruitment of Chief Officers

14. The Council's policy and procedures with regard to recruitment of chief officers is set out within the Officer Employment Procedure Rules as set out in the Council's Constitution. When recruiting to all posts the Council will take full and proper account of its own equal opportunities, recruitment and redeployment Policies. The determination of the remuneration to be offered to any newly appointed chief officer will be in accordance with the pay structure and relevant policies in place at the time of recruitment. Where the Council is unable to recruit to a post at the designated grade, it will consider the use of temporary market forces supplements in accordance with its relevant policies.

15. Where the Council remains unable to recruit chief officers under a contract of service, or there is a need for interim support to provide cover for a vacant substantive chief officer post, the Council will, where necessary, consider and utilise engaging individuals under 'contracts for service'. These will be sourced through a relevant procurement process ensuring the council is able to demonstrate the maximum value for money benefits from competition in securing the relevant service. The Council does not currently have any Chief Officers under such arrangements.

Performance-Related Pay and Bonuses – Chief Officers

16. The Council does not apply any bonuses or performance related pay to its chief

officers. Any progression through the incremental scale of the relevant grade is subject to satisfactory performance which is assessed on an annual basis.

Additions to Salary of Chief Officers (applicable to all staff)

17. In addition to the basic salary for the post, all staff may be eligible for other payments under the Council's existing policies. Some of these payments are chargeable to UK Income Tax and do not solely constitute reimbursement of expenses incurred in the fulfilment of duties. The list below shows some of the kinds of payments made.
    a. reimbursement of mileage. At the time of preparation of this statement, the Council pays an allowance of 45p per mile for all staff, with additional or alternative payments for carrying passengers or using a bicycle;
    b. professional fees. The Council pays for or reimburses the cost of one practicing certificate fee or membership of a professional organisation provided it is relevant to the post that an employee occupies within the Council.
    c. long service awards. The Council pays staff an additional amount if they have completed 25 years of service.
    d. honoraria, in accordance with the Council's policy on salary and grading. Generally, these may be paid only where a member of staff has performed a role at a higher grade;
    e. fees for returning officer and other electoral duties, such as acting as a presiding officer of a polling station. These are fees which are identified and paid separately for local government elections, elections to the UK Parliament and EU Parliament and other electoral processes such as referenda;
    f. pay protection – where a member of staff is placed in a new post and the grade is below that of their previous post, for example as a result of a restructuring, pay protection at the level of their previous post is paid for the first 12 months. In exceptional circumstance pay protection can be applied for greater than 12 months with the prior approval of the Chief Executive.
    g. market forces supplements in addition to basic salary where identified and paid separately;
    h. salary supplements or additional payments for undertaking additional responsibilities such as shared service provision with another local authority or in respect of joint bodies, where identified and paid separately;
    i. attendance allowances.

Payments on Termination

18. The Council's approach to discretionary payments on termination of employment of chief officers prior to reaching normal retirement age is set out within its policy statement in accordance with Regulations 5 and 6 of the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006 and Regulations 12 and 13 of the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007.

19. .Any other payments falling outside the provisions or the relevant periods of contractual notice shall be subject to a formal decision made by the full Council or

relevant elected members, committee or panel of elected members with delegated authority to approve such payments.

20. Redundancy payments are based upon an employee's actual weekly salary and, in accordance with the Employee Relations Act 1996, will be up to 30 weeks, depending upon length of service and age.

Publication

21. Upon approval by the full Council, this statement will published on the Council's website. In addition, for posts where the full time equivalent salary is at least £50,000, the Council's Annual Statement of Accounts will include a note on Officers Remuneration setting out the total amount of:
    a. Salary, fees or allowances paid to or receivable by the person in the current and previous year;
    b. Any bonuses so paid or receivable by the person in the current and previous year;
    c. Any sums payable by way of expenses allowance that are chargeable to UK income tax;
    d. Any compensation for loss of employment and any other payments connected with termination;
    e. Any benefits received that do not fall within the above.

Lowest Paid Employees

22. The Council's definition of lowest paid employees is persons employed under a contract of employment with the Council on full time (37 hours) equivalent salaries in accordance with the minimum spinal column point currently in use within the Council's grading structure. As at 1st April 2017 this is £15,014 per annum.

23. The Council also employs apprentices (or other such categories of workers) who are not included within the definition of 'lowest paid employees' (as they are employed under a special form of employment contract; which is a contract for training rather than actual employment).

24. The relationship between the rate of pay for the lowest paid and chief officers is determined by the processes used for determining pay and grading structures as set out earlier in this policy statement.

25. The statutory guidance under the Localism Act recommends the use of pay multiples as a means of measuring the relationship between pay rates across the workforce and that of senior managers, as included within the Hutton 'Review of Fair Pay in the Public Sector' (2010). The Hutton report was asked by Government to explore the case for a fixed limit on dispersion of pay through a requirement that no public sector manager can earn more than 20 times the lowest paid person in the organisation. The report concluded that "it would not be fair or

wise for the Government to impose a single maximum pay multiple across the public sector". The Council accepts the view that the relationship to median earnings is a more relevant measure and the Government's Code of Recommended Practice on Data Transparency recommends the publication of the ratio between highest paid salary and the median average salary of the whole of the authority's workforce.

26. The current pay levels within the Council define the multiple between the lowest paid (full time equivalent) employee and the Chief Executive as [1:10.5] and; between the lowest paid employee and average chief officer as [1:4.6]. The multiple between the median (average) full time equivalent earnings and the [Chief Executive] **is** [1:5.3] and; between the median (average) full time equivalent earnings and average chief officer **is** [1:2.8].

27. As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside the sector, the Council will use available benchmark information as appropriate.

Accountability and Decision Making

28. In accordance with the Constitution of the Council, the Council is responsible for setting the policy relating to the recruitment, pay, terms and conditions and severance arrangements for employees of the Council. Decisions about individual employees are delegated to the Chief Executive.

29. The Appointments Committee is responsible for recommending to Council matters relating to the appointment of the Head of Paid Service (Chief Executive), Monitoring Officer, Section 151 Officer and Chief Officers as defined in the Local Authorities (Standing Orders) Regulations 2001 (as amended);

30. For the the head of Paid Service, Monitoring Officer and the Chief Finance Officer, the Statutory Officers Disciplinary Action Panel considers and decides on matters relating to disciplinary action.

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BROMSGROVE DISTRICT COUNCIL

CABINET

28th February 2017

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2017-18 TO 2018-19

Relevant Portfolio Holder Portfolio Holder Consulted Relevant Head of Service	Councillor Geoff Denaro Jayne Pickering
Wards Affected	All
Ward Councillor Consulted	None specific
Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 Members are asked to approve the strategy statement for treasury management and investments in order to comply with the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 The Committee is asked to **RECOMMEND** to Full Council:

2.1.1 the Strategy and Prudential Indicators shown at Appendix 1.

2.1.2 the Authorised Limit for borrowing at £15 million, should borrowing be required.

2.1.3 the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £2.5 million, subject to market conditions.

2.1.4 the updated Treasury Management Policy shown at Appendix 2.

3. KEY ISSUES

Financial Implications

3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

3.2 CIPFA has defined Treasury Management as:

"the management of the organisation's investments, 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."

3.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements

3.4 In addition, the Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable'.

3.5 The revised CLG guidance issued in November 2011 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.

3.6 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

3.7 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, the Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

Legal Implications

3.8 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

Service/Operational Issues

3.9 None as a direct result of this report.

Customer/ Equalities and Diversity

3.10 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment. Controls in place to mitigate these risks are as follows:

- Regular monitoring of the status of the organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications.

5. APPENDICES

Appendix 1 - Treasury Management Strategy Statement and Investment Strategy 2017/18

Appendix 2 – Treasury Management Policy Statement

AUTHOR OF REPORT

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Appendix 1

Treasury Management Strategy Statement And Investment Strategy 2017/18

1. Introduction

1.1 On 17th March 2010, the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year. A copy of the Council's Treasury Management Policy Statement is in Appendix 2.

1.2 The purpose of this TMSS is, therefore, to approve:
- Treasury Management Strategy for 2017/18
- Annual Investment Strategy for 2017/18
- Prudential Indicators for 2017/18, 2018/19 and 2019/20
- MRP Statement.

1.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.4 The Council has surplus operational cash balances and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

1.5 All treasury activity must comply with relevant statute, guidance and accounting standards. **External Context**

1.6 Economic background: The major external influence on the Authority'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 in December 2016. 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 outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook:

1.7 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 Authority; returns from cash deposits however continue to fall.

2. Background - Local Context

The Council currently has £4.5m in short-term investments. Details of investments are shown in further detail at ***Appendix B***.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding minimum working capital of £2m.

The Council is currently debt free. However as existing capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget, there is a continued diminution of these resources. It is anticipated that the Council would need to borrow to fund capital expenditure (leisure centre). The forecast borrowing requirement is shown in the balance sheet analysis in Table 1 below.

2.1 **Table 1: Balance Sheet Summary and Forecast**

	31.3.2016 Actual £m	**31.3.17 Estimate £m**	**31.3.18 Estimate £'000**	**31.3.19 Estimate £'000**	**31.3.20 Estimate £'000**
General Fund CFR	7.10	11.89	16.68	18.50	20.14
Total Capital Financing Requirement	**7.10**	11.89	16.68	18.50	20.14
Less existing external borrowing**	0	-	-2.00	-6.15	-5.28
Internal borrowing					
Less: Usable reserves	-7.42	-7.42	-6.01	-4.55	-2.51

Less: Working capital	-1.00	-2.47	-2.52	-2.52	-2.52
Investments (or new borrowings)	6.33	-2.00	-6.15	-5.28	-9.83

****** Note: anticipated borrowing is shown in the last row of the table**.**

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that an Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2016/17.

3. Interest Rate Forecast

3.1 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

3.2 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.25%, and that new long-term loans will be borrowed at an average rate of 3.5%.

. **Borrowing Strategy**

4.1 The Council has always been debt free and has not entered into any long-term borrowing arrangements due to the level of significant capital receipts. However, the Medium Term Financial Plan estimates that the ongoing utilisation of existing capital receipts will result in them having reduced to a level that will necessitate having to borrow to fund part of the current capital programme and future capital expenditure.

4.2 The balance sheet forecast in table 1 shows that the Council is likely to have a likely borrowing requirement of £10m over the next three financial years.

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

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source and flexibility.

The Public Works Loan Board (PWLB) and its successor body will most likely be the lender of choice given the relative straightforwardness and flexibility of such borrowing , but the Council will also investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates but without compromising flexibility.

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below in Table 2)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Worcestershire County Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities, for example operating and finance leases, hire purchase.

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 borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4. Investment Objectives Strategy

Objectives: Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The 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 receiving unsuitably low investment income.

Strategy: The Council's surplus cash is currently invested in call accounts or term deposits with banks and building societies which, by their nature, are unsecured. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes, where practicable, during 2017/18.

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 UK, USA and the European Union. Australia and Switzerland are well advanced with their own plans. Meanwhile, changes which took place to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with the Council making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain stubbornly low.

The Council will also consider investment of surplus monies in pooled Money Market Funds which provide much greater diversification of credit risk as well as high liquidity (same-day access to the investment).

Over the past 24 months, invested funds have ranged between £4 million and £16.5 million; but as capital receipts and reserves continue to be utilised the core investments balances (i.e. not including day-to-day operational surpluses) are expected to be much lower over the forthcoming years.

The Council may invest its surplus funds with any of the counterparties defined in Table 2 below, subject to the time and cash limits (per counterparty) shown below.

Table 2: Approved Investment Counterparties

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£2.5m 5 years	£3m 20 years	£3m 50 years	£2m 5 years
AA+	£2.5m 5 years	£3m 10 years	£3m 25 years	£2m 5 years
AA	£2.5m 4 years	£3m 5 years	£3m 15 years	£2m 5 years
AA-	£2.5m 3 years	£3m 4 years	£3m 10 years	£2m 3 years
A+	£2.5m 2 years	£3m 3 years	£2m 5 years	£2m 2 years
A	£2.5m 13 months	£3m 2 years	£2m 5 years	£2m 2 years
A-	£2.5m 6 months	£3m 13 months	£2m 5 years	£2m 2 years
BBB+	£1.5m 100 days	£2m 6 months	£1m 2 years	£1m 1 year
BBB	£1.5m next day only	£1m 3 months	n/a	n/a
None	£1.5m 6 months	n/a	£3m 25 years	£500k 1 year
Pooled Funds	£2.5m per fund			

Investments in the categories outlined above are:

Banks Unsecured: call and notice accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the banking regulator determine that the bank/building society is failing or likely to fail.

Banks Secured: covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are exempt from bail-in and are secured on the financial institution's assets, which limits the potential losses in the unlikely event of insolvency.

Government: Investments with local authorities or guaranteed by national governments, investments with multilateral development banks. These are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

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

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.

Risk Assessment and Credit Ratings:

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

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

- no new investments will be made,

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

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

Other Information on the Security of Investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support 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.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If necessary, surplus monies will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

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 A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. Such investments will be limited to 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. The Council will limit non-specified investments to £2.5 million in total.

Council's Banker – The Council's current accounts are held with HSBC Bank plc. The lowest long-term credit rating for HSBC Bank plc is 'AA-' (reference Table 2). Should the bank's credit rating be downgraded to BBB or BBB-, the Council may continue to deposit surplus cash with HSBC Bank plc providing that investment can be withdrawn on the next working day.

Table 3: Portfolio Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Unsecured investments with Building Societies	£3m in total
Money Market Funds	£7.5m in total

6. Policy on the use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments to reduce interest rate risk and to increase income or reduce costs. Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (such as swaps, forwards, futures and options). These will only be used where they can be clearly demonstrated to reduce the overall level of risk exposed to the Council.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria and their value will count against the counterparty credit limit.

7. Treasury Management Indicators

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

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 interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2017/18	**2018/19**	**2019/20**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

As the Council does not have long-term debt the limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed rate or variable rate basis. Whether new loans are borrowed at fixed or variable rates will ultimately depend on the rates available at the time of borrowing, expectations of future interest rate movements and the management of the associated risks.

Fixed rate investments and borrowings are described as 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 rate.

Maturity Structure of Fixed Rate 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:

	Lower	**Upper**

Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

Note: the Council does not have fixed rate long-term borrowing; the limits above have been set to provide flexibility to borrow in the most appropriate maturity band(s) when such borrowing is undertaken.

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 period end will be:

	2017/18	**2018/19**	**2019/20**
Limit on principal invested beyond year end	£2m	£1.5m	£1m

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments will be assigned a score based on their perceived risk.

	Target
Portfolio average credit score	6, which is equivalent to a credit rating of 'A'

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

	Target
Total cash available within 3 months	£3m

8. Annual Minimum Revenue Provision Statement 2016/17 (MRP)

8.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

8.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

8.3 The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

8.4 The Council's Capital Financing Requirement is positive and relates to unsupported capital expenditure. MRP will be determined by charging the expenditure over the expected useful life of the relevant assets as the principal annuity with an annual interest rate of 4% starting in the year after the asset becomes operational. The annuity method recognises the time value of money, resulting in less charge in early years, rising as time goes on.

MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

8.5 Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

8.6 Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

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Based on the Council's estimate of its Capital Financing Requirement on 31st March 2016, the budget for MRP has been set as follows:

	31.03.2017 Estimated CFR £'000	18/19 Estimated MRP £'000
Supported capital expenditure before 01.04.2008	0	0
Unsupported capital expenditure from 01.04.2008	100	151

9. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

9.1 The Executive Director of Finance and Resources will report to Full Council on treasury management activity / performance and Performance Indicators as follows:

- Quarterly against the Strategy approved for the year.
- The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- Full Council will be responsible for the scrutiny of treasury management activity and practices.

10. Other Items

10.1 CIPFA's Code of Practice requires the Executive Director of Finance and Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Responsibility for scrutiny of the Treasury Management function will rest with the Council. The Executive Director of Finance and Resources will ensure that adequate training is provided for all relevant Members during the financial year.

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10.2 The Council has appointed Arlingclose Limited as treasury management advisers; receiving specific advice on investment, debt and capital finance issues.

Prudential Indicators 2017/18 – 2020/21

1 Background:
There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure that the capital investment plans 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.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the Budget report.

Capital Expenditure and Financing	2017/18 Revised £000s	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
General Fund	6,466	4.789	1,830	1,631
Total Expenditure	**6,466**	**4,789**	**1,830**	**1,631**
Financing and Funding				
Capital Receipts	(1,000)	(1,000)	(1,057)	(1,108)
Government Grants	(370)	(323)	(323)	(323)
Reserves	(694)	(250)	(250)	-
Section 106	(408)	(200)	(200)	(200)
Revenue	(150)	0	0	0
Total Financing				
Unsupported Borrowing	(3,844)	(3,016)	0	0
Total Financing and Funding	**(6,466)**	**(4,789)**	**(1,830)**	**(1,631)**

2. Capital Financing Requirement:

2.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	31.03.17 Estimate £'000	31.03.18 Estimate £'000	31.03.19 Estimate £'000	31.03.20 Estimate £'000
General Fund	11,890	16,680	18,500	20,140
Total CFR	**11,890**	**16,680**	**18,500**	**20,140**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority 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.

Debt	31.03.17 Estimate £000s	31.03.18 Estimate £000s	31.03.19 Estimate £000s	31.03.20 Estimate £000s
Borrowing	2,000	8,250	9,660	9,660
Finance leases	0	0	0	0
Total Debt	**2,000**	**8,250**	**9,660**	**9,660**

Total debt is expected to remain below the CFR during the forecast period.

3. Actual External Debt:

3.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2016	£'000
Borrowing	nil
Other Long-term Liabilities	-
Total	**nil**

4. Authorised Limit and Operational Boundary for External Debt

4.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

4.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

4.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

4.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2018/19 Estimate £'000
Borrowing	15,000	15,000	15,000	15,000
Other Long-term Liabilities	0	0	0	0
Total	**15,000**	**15,000**	**15,000**	**15,000**

4.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

4.6 The Executive Director of Finance and Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Full Council.

Operational Boundary for External Debt	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	16,000	16,000	16,000	16,000
Other Long-term Liabilities	0	0	0	0
Total	**16,000**	**16,000**	**16,000**	**16,000**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	2.91	1.80	5.78	6.02

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2017/18 £	2018/19 Estimate £	2019/20 Estimate £
General Fund - increase in annual band D Council Tax	**5.00**	5.00	5.00

Adoption of the CIPFA Code of Practice: The indicator below demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 17th March 2010.

The Council has incorporated the changes from the revised 2011 CIPFA Code of Practice into its treasury policies, procedures and practices.

Appendix 2

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Full Council and for the execution and administration of treasury management decisions to Executive Director of Finance and Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.