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SCARBOROUGH BOROUGH COUNCIL

Financial Strategy

2017-2027

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Financial Strategy

Supporting the Council's Vision and Key Priorities

CONTENTS

Section 1: FINANCIAL STRATEGY

EXECUTIVE SUMMARY

Financial Management is essential in achieving good corporate governance, and underpins service quality, improvement, and accountability. It supports effective performance and the achievement of an organisation's aims.

Financial Planning is integral to an organisation's strategic planning process.

The Council has put in place a fully integrated financial strategy that seeks to ensure long-term financial stability, the achievement of value for money, and funding for priorities. This Financial Strategy updates the previous Strategy, which was approved by Council in February 2016.

The focus of this Financial Strategy is on long term planning, and decision making for the future. Whilst the Strategy includes specific proposals for the 2017/18 revenue and capital budget, there should not be an over concentration on just one year's budget. This Strategy seeks to avoid year on year budget setting, and use of short term/one off measures to balance the budget. It is a Strategy for the future, to ensure effective resource planning and the delivery of Corporate Objectives.

The senior levels of the organisation will require an understanding of the collective responsibilities for the stewardship and use of resources to successfully deliver this Financial Strategy.

The Financial Strategy seeks to achieve the following **Objectives**: -

1. **Budgets are prudent and sustainable in the long term,**

2. **Financial plans recognise corporate priorities and objectives,**

3. **Significant risks are identified, and factors to mitigate against those risks are identified,**

4. **The Capital Programme is planned over a 10 year period, with "unsupported" borrowing minimised, other than where it is essential or where there are clear financial or economic benefits for the Renaissance of the Borough,**

5. **Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account,**

6. **Council Tax increases will be kept below the Government's expected upper level of increase, and the broad anticipated**

increase for future years will be set out within the financial plans, recognising that these increases may be subject to change.

7. **Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council,**

8. **Value for money and achievement of improved efficiency and service delivery underpin the Financial Strategy, and the outcomes of investment made in priority areas are evaluated**

9. **The Financial Strategy supports the achievement of excellence in financial management and use of resources.**

The **Headline proposals and inclusions** within the Financial Strategy, are as follows:-

Revenue

- A Council Tax increase of 2.31% (£5 for a Band D Property), leading to a Council Tax requirement for 2017/18 of £8,326,499;
- Proposed efficiencies/savings totalling £1.992m;
- The balancing of the budget will rely on a £500k contribution from reserves;
- £192k mainstream budget provision for increased contributions towards essential and priority capital investment and borrowing costs;
- £250k one-off contributions to fund capital / one-off costs (the schemes being progressed are set out within the capital section below);
- £15k to provide a baseline budget for contributions to the Local Enterprise Partnership;
- £36k funding to address seagull issues across the Borough;
- A commitment to fund the following schemes from the Investment Fund:
    - £250k associated with the review of Public Conveniences
    - £80k MOT facilities at Dean Road Depot
    - £55k In Cab devices for refuse freighters
    - £105k Fleet Management system and implementation
    - £25k External support for the review of Dean Road / Manor Road depot facilities
    - £17k essential works at the crematorium

Capital

- Proposed capital expenditure in 2017/18 as follows :-

- **Scheduled Vehicle and Equipment Replacements** (vehicles £542k, equipment £108k, IT £189k)
- **Planned Infrastructure Works (**£100k replacement lighting columns, £3million Council contribution for Coast Protection works)
- **Statutory Requirements** (Disabled Facilities Grants)
- **Other** (£26k Scarborough Town Centre resurfacing works, £90k contribution towards the Phase 2 HLF funding bid for South Cliff Gardens, £251k for de-silting works at Peasholm, £70k for the relocation of Khyber Pass toilets Whitby, £30k for the demolition of a Council owned property on Royal Albert Drive, £20k for essential works at Peasholm and £50k for Scarborough Business Park road adoption costs)

- Capital requirements currently exceed available resources and the following essential and priority schemes are not currently funded within the budget:

1. Essential works at Peasholm (required to maintain income streams)
2. Priority works at the Crematorium (required to maintain income streams)
3. Additional contributions to Coast Protection Works
4. Cemetery provision across the Borough
5. Town Hall Civic asset management works

Any future surplus capital receipts or other available monies will be allocated to progress the schemes in the above order of priority (with 1 being the highest priority). The interim budget report will provide an updated funding position for each of the above schemes and will be presented to Cabinet in September 2017.

Reserves

- All reserve ranges are deemed to be adequate

Policies

- Treasury Management Policy Statement
- Prudential Indicators and Minimum Revenue Provision Policy
- The Council's Pay Policy Statement.

This Financial Strategy represents how the Council plans its resources over the long term. The Strategy provides the base to enable the Council to move forward positively over coming years. However, a significant amount of ongoing work will be required to put the Strategy into action, and ensure resources are effectively managed and aligned with priorities.

1. PURPOSE AND SCOPE OF THE FINANCIAL STRATEGY

The Financial Strategy sets out the overall shape of the Council's budget by establishing how available resources will be allocated between services, reflecting Council and community priorities, and therefore providing a framework for the preparation of annual budgets.

In particular it:

- sets out the Council's medium term financial aims and the measures to be taken to ensure they will be achieved;
- sets out the Council's approach to delivering improved services and value for money over the next few years;
- describes the Council's arrangements for developing the medium term financial plan, including:
  - The identification and prioritisation of spending needs;
  - The key financial influences on our medium term financial planning and the assumptions made in developing the plan;
  - The challenges and risks associated with the plan and how we will deal with them.
- sets out the Council's policy on reserves and balances.
- identifies the resource issues and principles, which will shape the Council's financial strategy and annual budgets.

The Financial Strategy covers all revenue and capital spending plans

2. CORPORATE VISION AND PRIORITIES

Corporate Plan

The Council's Corporate Plan focuses on four key Aims; People, Place, Prosperity and Council. Delivery of the Financial Strategy will play a key role in delivering these aims.

Engagement and Consultation

The Council's Corporate Plan, Vision, Aims and Priorities are all subject to consultation with stakeholders. There are arrangements in place for consulting and engaging with the public and stakeholders on a number of other areas, such as service delivery and this takes place through a range of mechanisms e.g. Residents and Business panels, the Council's website, social media. Surveys with residents, stakeholders and focus groups are regularly carried out and these are used to monitor public satisfaction. A corporate complaints process is also in operation.

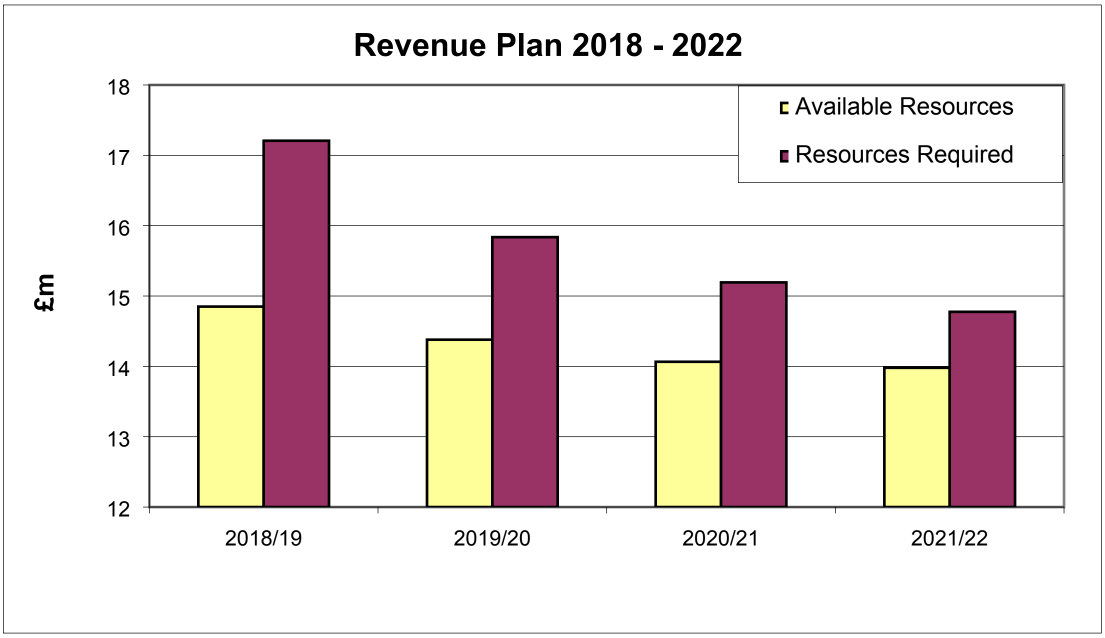
3. THE COUNCIL'S REVENUE PLAN

3.1 REVENUE PLAN 2017-2021

The Council maintains a 5 year revenue plan, which sets out the Council's resources and spending plans over that period. The revenue plan is updated continuously throughout the year to ensure that the forward projections accurately reflect up to date assumptions and the information available at that time.

The medium term revenue plan is based on an analysis of the key influences on the Council's financial position and an assessment of the main financial risks facing the Council.

The graph below shows the forecast "standstill" budget and estimated resource availability for the next four years based on current revenue plan projections.



The reason for the “gap” in funding is summarised in the table below

Budget Variations Anticipated	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Pay and Price Inflation	446	418	410	410
Corporate Commitments	396	419	254	150
Contingency Sum	150	150	150	150
(Increase) / Decrease in Financing	1,366	470	314	86
The Funding Gap	**2,358**	**1,457**	**1,128**	**796**
Bridging the Gap				
Savings identified	(452)	(155)	(250)	-
Savings to be identified	(1,906)	(1,302)	(878)	(796)
Total	**(2,358)**	**(1,457)**	**(1,128)**	**(796)**

Contingency sums are dependent on achieving the level of savings shown. The level of savings required to bridge the funding gap will increase if cost pressures exceed the contingency sum.

3.2 REVENUE PLAN ASSUMPTIONS

The financial forecast is based on the following key factors and assumptions:

External Funding – Finance Settlement

The Council receives external support from Central Government through the distribution of resources within the Local Government Finance

Settlement. The distribution is made in accordance to authorities' relative needs with a mechanism for protection against detrimental changes in grant allocations. The retention of a proportion of business rate income now forms an important part of the Council's core funding.

In December 2015 the government announced the provisional finance settlement for 2016/17 alongside indicative settlement figures for the following 3 years up to 2020. Cuts in local government funding have formed an integral part of recent government's deficit reduction programmes and the table below sets out the anticipated reductions in the Borough Council's core grant funding over the period from 2010/11 to 2019/20 based on the indicative settlement figures.

Reductions in Local Government Finance Settlement Funding

YEAR	LGFS FUNDING* £'000	CASH REDUCTION £'000	% REDUCTION
2010/11	12,556		
2011/12	11,030	1,526	12.1%
2012/13	10,105	925	8.4%
2013/14	9,719	386	3.8%
2014/15	8,433	1,286	13.2%
2015/16	7,143	1,290	15.3%
REDUCTIONS OVER 2010 SR PERIOD		**5,413**	**43.1%**
2016/17	6,050	1,093	15.3%
2017/18^	5,231	819	13.5%
2018/19^	4,792	439	8.4%
2019/20^	4,292	500	10.4%
REDUCTIONS OVER 2015 SR PERIOD^		**2,851**	**39.9%**

^ provisional figures

CUMULATIVE REDUCTIONS OVER BOTH PERIODS		**8,264**	**65.82%**

*Figures have been adjusted to allow like for like comparisons between years.

The table shows that the Council will receive £8.264m less funding to run its services in 2019/20 than it did in 2010/11. This represents a 66% cut in annual funding.

The government's consultation document circulated alongside the 2016/17 provisional settlement set out that 'the Government will offer any council that wishes to take it up a four-year funding settlement to 2019-20' and adds that this is 'subject to councils accepting the offer and publishing an efficiency plan'. This Council accepted the Government's multi-year settlement offer.

Although the principle of a 4-year settlement is welcomed and will aid the Council's longer term financial planning the implications and extent of the proposed funding cuts over the period to 2020 demonstrate that the Council will need to fundamentally review how it delivers services in future.

Efficiency Plan

In order to accept the Government's multi-year settlement offer the Council had to approve an Efficiency Plan, which set out how the Council high level plans to address future year budget deficits.

Cabinet approved the Council's Efficiency Plan in September 2016. The core themes of addressing the budget shortfall are as follows:

- Transformational efficiencies and commercialisation;
- Investment to support economic growth;
- Strategic review of the Council's role in the delivery of services and use of assets; and the
- Planned use of reserves and Investment Fund

A copy of the Efficiency Plan is attached at Appendix K.

Business Rates

The localised business rates scheme came into effect on 1 April 2013 and represented a fundamental change in local government funding. Under the current scheme upper and lower tier local authorities retain 50% share of the income from business rates and the remaining 50% is paid back to Central Government to be distributed via grants. A tariff and top-up mechanism exists within the system to balance an authority's retained income shares against their deemed funding need (which is determined through the Local Government Finance Settlement).

The Government has recently announced that by 2020 local authorities will retain 100% of business rates income. The implications of this significant change in policy are not yet known and technical consultation papers on the proposals are expected to be made available during 2017. The tariff and top-up system will remain in place therefore it is highly unlikely that the Council's financial position will improve significantly as a result of the changes; however it is likely that there will be a greater financial risk associated with downturns in business rates income and the outcome of business rate appeals, which will fully lie with the Council.

A national business rates revaluation, which will come into effect on 1 April 2017 adds further uncertainty to the Council's level of retained business rates income in 2017/18 and future financial years.

Council Tax

In accordance with Objective 6 of this Financial Strategy, the plan makes a clear assumption that future Council Tax increases will be restricted to below Government upper limits.

The Localism Act includes the powers to allow local residents to veto excessive council tax rises and in 2012/13 year the Government introduced arrangements for council tax referendums where an authority sets a Council Tax which exceeds principles endorsed by Parliament (i.e. is “excessive”).

The Government’s provisional settlement set out a referendum threshold at the higher of a 2% or £5 increase for a Band D property.

The Council’s revenue budget proposals for 2017/18 assume that Council Tax levels for this Council will be increased by 2.31%, which is the equivalent of a £5 increase for a Band D property. Future year revenue projections assume a 2% increase.

Inflation rates and pay increases

The medium term plan makes provision for inflation and pay awards as follows:

Inflation: a composite rate of 0% has been used for non-salary expenditure budgets with a corporate contingency of £200k in 2017/18 and £200k per annum thereafter to fund unavoidable cost increases.

Pay awards: an annual 1% pay award is included in the 2017/18 budget and for each subsequent year of the medium term plan.

Interest Rates

The Council has borrowed to fund capital investment in previous years and provision has been made in the plan to fund the ongoing borrowing costs and repayments. In addition this Strategy recommends that borrowing be increased by a further £1.5 million to progress essential Coast Protection schemes.

The budget makes a provision of approximately 4% for the interest payable on new borrowing planned to be taken out during 2017/18.

The Council has significant levels of surplus cash balances at periods throughout the year, which it invests for short periods to earn interest. These cash balances represent unspent reserves held such as the Insurance Fund and unspent capital receipts and are also affected by variations in interest rates.

The council employs treasury management consultants to review its debt and investment portfolio. These consultants work with officers to manage the portfolio risk, whilst seeking to maximise interest receivable and minimise borrowing costs on a medium to long term basis.

The ongoing effect of existing policies, priorities and economic conditions

The ongoing effects of current policies, priorities and economic conditions are included in the plan. The budget makes provision for reductions in the level of benefits admin grant and revenue support grant, variations in recycling costs and income and includes a contingency budget to offset any unforeseen income shortfalls or cost pressures that may arise during the year.

Risks, Contingencies and Balances

The plan assumes provision for additional growth/contingency as follows:-

- 2017/18 – £200k (earmarked to offset costs associated with unavoidable inflationary costs)
- 2018/19 - £200k inflation plus £150k for other budget pressures
- 2019/20 - £200k inflation plus £150k for other budget pressures
- 2020/21 - £200k inflation plus £150k for other budget pressures
- 2021/22 - £200k inflation plus £150k for other budget pressures

There are significant risks inherent in the Medium Term Plan for the reasons summarised above and exemplified in the section below. A number of key items in the plan cannot be estimated with accuracy and the figures in the plan assume that significant savings will be made. In this situation it is essential to maintain sufficient contingency balances, not only to deal with unforeseen events but also to cover the potential risk of not achieving the savings required.

Savings Targets

The revenue plan highlights the need to identify significant savings in order to ensure that priority and front line services continue to be delivered. Achievement of these targets will be difficult, and therefore the process needs to be seen as an ongoing one, rather than an annual stop start process.

The Financial Plan includes efficiency and savings proposals totalling £1.992m in 2017/2018. The revenue projections already show an additional funding gap of £2.1m for 2018/19 and this level will increase further if additional cost pressures exceed the contingency allowance. This is the minimum level of savings that are acceptable if the Council's financial objectives for the medium term are to be met.

It is the Council's aspiration to develop a medium term balanced budget which sets out savings proposals for multiple years and work needs to take place to consider the options available to balance future year budgets. It is intended that a mid-year budget report for the 2018/19 year, which will aim to set out a clear strategy for future year savings proposals, will be presented to Members in September 2017.

The achievement of efficiency savings will continue to be a priority for the Council and it is recognised that to achieve such a large scale of transformation senior management will need to look closely at all areas of potential efficiency including partnership working, procurement, trusts and streamlining back office duties. Significant efficiencies have been delivered in recent years and it is recognised that efficiencies alone will not be sufficient to bridge the funding gap in future year's budgets. It is highly likely that members will be required to prioritise services and make difficult decisions in regards to service cuts in forthcoming years.

3.3 REVENUE BUDGET SUMMARY FOR 2016/17 AND 2017/18

The Councils current revenue spending and funding and proposed revenue spending and funding for 2017/18 is summarised below:

2016 / 2017 Revised Estimate		**Cost of Borough Services**	**2017 / 2018 Estimate**	
Gross Expenditure £	Net Expenditure £	Service Area	Gross Expenditure £	Net Expenditure £
3,196,358	2,717,299	Chief Executive		
55,706,552	6,971,710	Director (Nick Edwards)		
2,302,047	1,567,437	Director (Lisa Dixon)		
17,220,891	3,550,342	Director (Trevor Watson)		
1,187,816	47,828	Whitby Harbour Board		
7,255,805	164,827	Corporate		
86,869,468	15,019,443	**Total Expenditure**		**14,585,061**

2016/17 £	Financing	2017/18 £
2,128,505	Revenue Support Grant	1,230,593
210,206	Council Tax Collection Fund Surplus	258,031
4,605,836	Retained Business Rates Income (net of levies)	4,742,020
58,628	Grant to compensate Business Rates RPI caps	66,701
26,653	Business Rates Collection Fund Surplus / (Deficit)	(38,784)
7,029,828		**6,258,561**
7,989,615	**Council Tax Requirement**	**8,326,499**

The detailed proposals for the 2017/18 revenue budget are set out in Appendix A and further breakdowns of the revenue budgets are provided in Appendix I.

4. THE COUNCIL'S CAPITAL PLAN

4.1 THE CAPITAL STRATEGY

The Capital Strategy is the key vehicle for developing long term change to deliver the key priorities and corporate objectives. It meets this challenge by setting out the mechanism for delivering structural change and matching available resources to priority investment. It does this by addressing the key issues of:

a) prioritisation in line with the key priorities and corporate aims

b) engagement with partners of the community

c) affordability of funding

d) integration of capital and revenue decision-making

e) framework for managing and monitoring

f) the consideration of VAT partial exemption limits resulting from proposed capital expenditure

a) Prioritisation methodology

Capital resources are not sufficient to cover all of the Council's capital requirements and aspirations therefore schemes must be prioritised to ensure that available resources are allocated in the context of the Council's priority needs. This prioritisation must be applied to all proposals, regardless of the source of funding, prior to any decision being made to apply for external capital support such as grant funding, so that the Council can ensure that schemes form part of an overarching capital investment strategy.

The Council's Director's Team and Executive Board are actively involved in the capital decision making process.

b) ***Engag*****ement with partners of the community**

The Council is committed to seeking out innovative partnership and funding opportunities in order to deliver the capital strategy and achieve best value.

The Council has worked closely with funding partners (particularly Groundwork, Government Office, and private developers) to deliver recent projects. Future projects will continue to be developed through partnership working. The Council recognises the importance of increased community engagement and participation as fundamental to the quality of public services and the health of community life. The Council will therefore seek to develop projects with the full involvement of local communities and ensure appropriate consultation prior to scheme approval.

c) Affordability of funding and financing the Capital Programme for the Future

Resources to fund capital spending are provided from central government in the form of specific grants; as well as Council resources in the form of capital receipts, contributions from the revenue budget, contributions from reserves, and unsupported borrowing. In addition other external grants and contributions are sought.

Controlling the level of resource availability and ensuring the Council does not over commit resources or incur expensive borrowing are crucial factors in the Council's financial plans therefore the Capital Development Reserve and Investment Management Plan were established to achieve these priorities and serve as the principle sources of capital funding.

The Council can only generate more capital resources from increasing its amount of capital receipts or the level of unsupported borrowing.

Capital Development Reserve

The Capital Development Reserve identifies the capital funding available to the Council to progress planned equipment and infrastructure replacement programmes, asset management works and statutory requirements such as the provision of disabled facilities grant funding. The Reserve aims to matches resources to investment over a 10 year period, ensuring that resources are not over committed, and provides a mechanism by which essential and statutory capital spending is controlled. This ensures that the implications of capital spending in terms of the revenue impact are planned and minimised.

Appendix B provides further detail on the projected resources available within the Capital Development Reserve and the proposed use of those resources.

Investment Management Plan (IMP)

In addition to the ongoing annual capital requirements, and despite the funding constraints that local government authorities face, the Council has aspirations to deliver an ambitious IMP alongside its existing capital programme.

The key aim of the IMP is to focus on making continuous well balanced investments in order to improve and change the face of the Borough; with a clear focus upon economic regeneration, business rates growth, employment and new homes. It is recognised that the limited capital resources available to the Council need to be prioritised effectively to ensure that schemes delivering regeneration opportunities are not progressed to the detriment of essential schemes such as sheet piling works and health and safety improvements.

The IMP will complement the wider capital plan, however schemes included within the plan could impact on future year revenue budgets therefore careful consideration is required to ensure that resources are not over committed.

The resources currently available within the Investment Management Plan are fully committed.

Capital Contingency Reserve

In addition to the Capital Development Reserve and Investment Management Plan the Council maintains a Capital Contingency Reserve. This Reserve provides contingency funding for potential additional costs / overspends that arise on the existing capital programme.

The Council has determined that a minimum of £500k should be retained in this Reserve to provide adequate contingency against unforeseen capital costs.

(d) Integration of Capital and Revenue Decision-Making

The Prudential Code

Under the Prudential Regime the Council has the responsibility to demonstrate that its capital investment programme is affordable, prudent and sustainable. The Prudential Code requires that this is done by calculating specific indicators for capital expenditure and financing and by setting borrowing limits. The indicators and borrowing limits for the current and next two years are set out at Appendix E.

The Council has historically mitigated the risk of unaffordable borrowing by establishing the Capital Development Reserve, in order to match resources and expenditure over a 10 year period and avoid the extension of borrowing over the medium term.

As current economic conditions have led to low interest rates and limited capital receipts options for borrowing have been utilised in recent years to continue the regeneration of the Borough, and more recently to progress a number of Investment Management Plan scheme and essential asset management and infrastructure works.

Any future borrowing will be minimised and will only be progressed where it can be demonstrated as being affordable and sustainable.

Revenue Implications

The revenue implications of funding the capital programme are the loss of interest receivable from the use of internal balances or repayment of principal, and increases in interest payable on additional external borrowing.

The Capital Strategy aims to restrict borrowing unless it can be demonstrated as being affordable and hence limits the impact on future revenue budgets.

The revenue implications of utilising unsupported borrowing to progress a number of priority schemes (e.g. the Water Park, Leisure Village, Coast Protection works) are / were factored into the decision making process for those schemes; however it does need to be recognised that those decisions do increase the Council's exposure to budgetary risk in future years.

It is recommended that the Council can use borrowing to fund capital investment as follows:

- *to the level of 'supported borrowing' allocations*

- *to fund Invest to Save schemes, based upon sound business cases/risk assessment. To assist in this process an Invest to Save Strategy is set out in Appendix C. This sets out basic principles that underpin the use of borrowing for Invest to Save purposes and the approval process to be followed.*

- *to fund schemes that deliver clear economic benefits where it can be demonstrated that the borrowing is affordable*

- *to fund essential works where it can be demonstrated that the borrowing is affordable*

All borrowing must be in accordance with the Prudential Code and Treasury Management Policy.

(e) Framework for Managing and Monitoring the Capital Programme

The Section 151 Officer has overall responsibility for the preparation and monitoring of the Council's capital programme and for reporting the outcome to Cabinet. The process involves:

- Reviewing the capital programme at least annually.
- Reviewing the current and estimated future availability of external funding and other opportunities for obtaining or bidding for additional capital resources.
- Reviewing the current and estimated future funding requirements for essential and statutory requirements.
- Preparing the Council's capital programme, strategy and consultation process.
- Monitoring progress in achieving the capital programme objectives.
- Reviewing and monitoring the Council's capital resources and asset disposal programme.

Quarterly monitoring reports on the capital programme and prudential indicators are submitted to Cabinet, the last of which comprises the end of year outturn. The financial regulations set out a requirement for regular reporting to members for all schemes above £250,000.

(f) VAT – Partial Exemption

Local Authorities can normally recover all VAT that they incur on expenditure under the special partial exemption regime for 'Section 33 bodies'. This is on the condition that VAT on costs relating to exempt business activities (e.g. cremation services, some sports facilities, some harbour facilities) is not more than 5% of all VAT incurred (input VAT). If the limit is breached, the VAT on all costs relating to exempt activities becomes payable to HMRC.

This limit was breeched in 2014/15 due to the installation of some mercury abatement equipment at the crematorium. The installation of this equipment was statutory and the HMRC policy team confirmed to the Council that a breach in 2014/15 would be treated as ‘occasional / insignificant’. As part of this agreement with HMRC the Council must ensure that the rolling average rate over a seven year period (where 2014/15 is year 4) is not in excess of 5%. Current projections suggest that this limit will not be exceeded.

The partial exemption calculation is materially affected by the level and types of capital expenditure incurred in any one year. If capital expenditure is not undertaken when expected (ie it is delayed into future years), the level of input tax will reduce and this could cause the Council to breach the 5% limit. Similarly if unplanned capital works are carried out on items that generate exempt income this could also cause the limit to be breached.

Indoor leisure facilities generate a significant proportion of exempt income and therefore increased the Council’s risk of breaching the 5% threshold. The Council’s decision (15/246) to outsource these facilities has reduced this risk substantially. In addition, refurbishment works at the Indoor Market have meant that the Council has had to ‘opt to tax’ this venue and this will also help alleviate future pressure on the limit.

The estimate for the Council’s partial exemption % in 2017/18, based on the budgetary levels and capital expenditure set out in this report, is [X.XX%] however slippage on capital schemes (both from 2016/17 into 2017/18 or from 2017//18 into 2018/19) could significantly affect this figure.

The table below outlines the make up of this calculation:

Venue	2016 / 17 Budget		2017 / 18 Budget	
	Value (£)	**%**	**Value (£)**	**%**
Revenue – Estimated Input Tax attributable to exempt activities				
Filey Community Centre and TIC	7,484	65		
Indoor Bowls Centre	300	100		
Scarborough Harbour (inc Coble Landing)	11,587	36		
Crematorium	13,513	93		
Falsgrave Community Resource Centre	3,610	100		
Whitby Harbour	7,350	10		
Total	**45,292**			
Capital – Estimated Input Tax attributable to exempt activities				
VPE Replacement	5,226	2		
IT Replacement Fund	756	2		
Total	**5,982**			
Input Tax				
Total Estimated Input Tax	3,200,000			
5% of Estimated Input Tax (i.e partial exemption threshold)	160,000			
Summary of VAT attributable to exempt activities				
Revenue Projected	45,292			
Capital Projected	5,982			
Total VAT attributable to Exempt Activities	**51,274**			
Estimated Partial Exemption %	**1.60**			

Reduced levels of Capital Expenditure

The Financial Strategy outlines capital expenditure next year of [£XXm] (excluding expenditure associated with the Investment Management Plan). It is assumed in the above calculation that this will increase the Council's input tax by [£XXm].

Should no capital expenditure be incurred next year then the estimate for the Council's partial exemption % in 2017/18 would increase to [X.XX%].

Investment Management Plan (IMP) Expenditure

The schemes included within the IMP have not been included within the above analysis since the phasing of the costs between financial years is currently uncertain. Inclusion of these schemes would increase the Council's level of Input Tax in year and therefore increase the Council's Partial Exemption threshold and will not have a detrimental effect on the limits.

Where it is envisaged that the Council will receive rental income from any assets constructed under IMP schemes the Council will opt to tax the land. This will ensure that income derived from the schemes is not classed as exempt for VAT purposes, and the expenditure associated with the scheme does not need to be included in the Council's partial exemption calculation.

All future capital schemes will be assessed to identify how they will impact on the Council's partial exemption VAT position.

4.2 THE CAPITAL PROGRAMME 2016/17 TO 2026/27

The following table summarises the total expenditure included in the capital programme and the Council's investment in the Borough.

Capital Expenditure

	2016/17 £000	2017/18 £000	2018/19 £000	2019 - 2027 £000	Total £000
Asset Management Vehicle Plant and Equipment Coast Protection Information Technology Statutory Requirements Other					
Total Expenditure					
Financed From: Grants and Contributions					
Net Cost to Council					

Revenue Spending from Capital Resources

	2016/17 £000	2017/18 £000	2018/19 £000	2019 - 2027 £000	Total £000
Coast Protection Other					
Total Expenditure					
Financed from: Grants and Contributions					
Net Cost to the Council					

Investment Management Plan

	2016/17 £000	2017/18 £000	2018/19 £000	2019 - 2027 £000	Total £000
Total Expenditure Grants & Contributions					
Net Costs to the Council					

Summary

	2016/17 £000	2017/18 £000	2018/19 £000	2019-2027 £000	Total £000

Further details of the expenditure and financing, on a scheme-by-scheme basis, are provided of the capital programme within Appendix 'G'

5. RISK ASSESSMENT AND ISSUES AFFECTING THE FINANCIAL STRATEGY

There are a number of challenges and risks that the Council faces which will have implications for the Council's financial position in the medium term. This assessment of risk is an essential element of the budget process; it is used to inform decisions about the appropriate levels of contingencies and reserves that may be required and to indicate priorities for financial monitoring.

The key risks identified for 2017/18 and in the medium term are listed in Appendix H, together with comments on how they will be managed.

6. THE COUNCILS FINANCIAL OBJECTIVES AND HOW THEY WILL BE ACHIEVED

The Financial Strategy is designed to maintain financial stability and, as far as possible, avoid the need for large unplanned increases in Council Tax and unaffordable borrowing, whilst ensuring we have sufficient resources to achieve the corporate aims and priorities. To this end, it is proposed that the Medium Term Financial Strategy should ensure the following specific objectives.

Objective 1 - Budgets are Prudent and Sustainable in the Long Term

This seeks to ensure that budgets recognise real cost pressures, and that no over reliance is placed upon any one off savings, and/or use of one off reserves.

This will be achieved by ensuring:-

- adequate provision is made for inflation pressures, current economic conditions, pay awards, and new legislation
- the revenue budget is not supported by one off savings, or any unsustainable / unplanned use of reserves
- effective budget monitoring to ensure early identification of issues and action planning

Objective 2 – Financial Plans Recognise Corporate Priorities and Objectives

This seeks to ensure that financial plans link with corporate planning and priorities, and that there is provision within the Financial Strategy for growth/development funding on an ongoing basis.

This will be achieved by ensuring:-

- additional investment links to corporate priorities
- long term vision and objectives are considered within the report
- provision within financial planning figures for growth and contingency amounts based upon perceived risk,

Objective 3 - Significant risks, and factors to mitigate those risks, are identified

Risk Management is crucial in long term planning, and it is essential that the Financial Strategy clearly identifies the associated risks. This is supported by an embedded risk management culture within the organisation.

This will be achieved by:-

- risk management being embedded in corporate and service planning
- financial risks being specifically considered on an ongoing basis, and specifically reflected within the Financial Strategy
- targeting high risk areas when setting budgets and monitoring these areas closely throughout the year
- the establishment of contingency budgets in the revenue budget

Objective 4 - The Capital Programme is planned over a 10 year period, with "Unsupported" Borrowing minimised, other than where it is essential or where there are clear financial or economic benefits for the Renaissance of the Borough;

This seeks to ensure that unsupported borrowing is minimised, thereby ensuring the capital programme is prudent and sustainable, and does not lead to unaffordable revenue implications.

This will be achieved by ensuring: -

- the development of a 10 year capital programme
- the establishment of a Capital Development Fund which matches resources and expenditure over a 10 year period
- the use of unsupported borrowing only on an invest to save basis or where clear economic benefits can be demonstrated.
- where schemes demonstrating economic rather than financial benefits are funded by unsupported borrowing the associated revenue costs will be reported, considered and approved by Council, to ensure that they are affordable
- the prioritisation of capital schemes
- an adoption of an Invest to Save Strategy
- contingency funding is included within capital schemes
- the establishment of the capital contingency reserve
- a corporate approach to external funding opportunities

Objective 5 - Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account;

It is important that the Financial Strategy is realistic and that there is a corporate awareness of the constraints on Council funding.

This will be achieved by ensuring:-

- specific reference within the Financial Strategy of constraints, and current issues
- regular reporting to Cabinet on local government finance issues
- awareness of the financial position within the organisation through an effective communication strategy

Objective 6 - Council Tax increases will be kept below the Government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the Financial Plans, recognising that these increases may be subject to change.

The Government may in the future require authorities to set out planned Council Tax increases for the next three years. It is important in developing the financial plan that an assumed Council Tax increase is included, ensuring that financial plans do not place over-reliance upon excessive Council Tax increases.

This will be achieved by ensuring:-

- that financial plans take account of this level of Council Tax increase, Government expectations on Council Tax increases, and in particular that savings targets reflect the likely levels of Council Tax

Objective 7 - Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council.

It is important to strike a balance between maintaining adequate reserves and contingencies and delivering priorities and achievement of value for money.

This will be achieved by ensuring:-

- an annual review of reserves, linked to corporate priorities and treasury management implications
- that adequate levels of capital reserves are maintained. In view of the significant risks facing the Council in terms of the delivery of a major efficiency improvement programme and capital programme it is essential that minimum levels of reserves are maintained.

Objective 8 - Value for money and achievement of improved efficiency and service delivery underpin the Financial Strategy, and the outcomes of investment made in priority areas are evaluated

Value for money should be at the heart of everything the Council does, and the pursuit of improved efficiency and performance needs to be established as an ongoing underlying principle. It is important that the Council monitors how effective its investment in priority areas has been in order to evidence Value for Money.

This is being achieved through:-

- embedded finance and performance reporting to Members
- an ongoing efficiency programme

Objective 9 - The Financial Strategy supports the achievement of excellence in financial management

A Financial Plan in isolation will achieve little. It needs to be supported by:-

- effective financial governance arrangements
- financial management that supports performance
- effective monitoring arrangements
- effective financial reporting

This will be achieved by:-

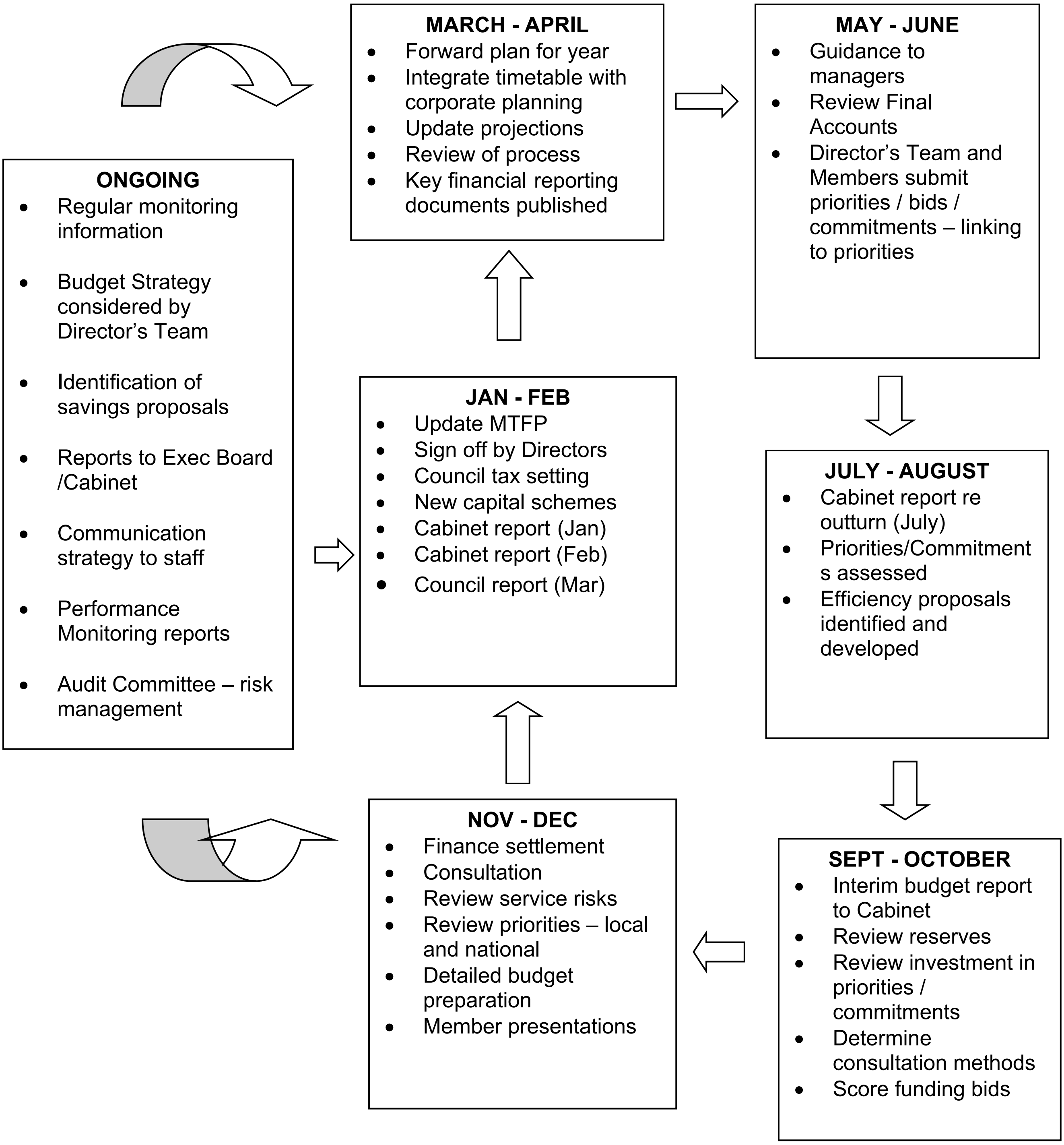
- continuing to develop the financial culture within the Council
- financial reporting and documentation based upon stakeholder needs
- improved financial systems
- Training and Development – finance/non finance
- Integration of financial and non-financial performance measures

7. THE BUDGET PROCESS

The Financial Strategy comprises a 5-year revenue plan and a 10-year capital plan.

The plans will be reviewed annually and rolled forward by a year. The process, from the start of the review of the financial plans through to the approval and allocation of budgets, spans the whole year. An outline budget timetable is set out below.

The Budget Process



8. BALANCES AND RESERVES

The Local Government Act 2003 places a specific duty on the Chief Finance Officer, i.e. the Section 151 Officer, to make a report to the authority when it is considering its budget and the level of the Council Tax. This report must deal with the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. The Council must have regard to this report in making their decisions.

The Council also has a fiduciary duty to local taxpayers and the Section 151 Officer must be satisfied that the decisions taken on the level of balances and reserves represent the proper stewardship of funds.

In assessing the adequacy of the contingencies, balances and reserves, the Section 151 Officer takes account of the key financial assumptions underpinning the budget, together with an assessment of the Council's financial management arrangements. This assessment will include a review of past performance and external influences on the financial plan, and full consideration of the risks and uncertainties associated with the plan, their likelihood and potential impact.

The Council's policy is to maintain its contingencies, balances and reserves at levels that are prudent but not excessive.

Appendix "F" details the position on the Councils Reserves.

9. CONCLUSION

This Financial Strategy sets out a range of proposals regarding the future management of resources and delivery of priorities.

The Strategy is underpinned by nine key Objectives, which are set out within section 2 and Section 6. The Executive summary highlights the main proposals, and recommendations.

In addition, specific proposals are highlighted for the 2017/18 revenue and capital budget.

The process of developing the Medium Term Financial Plan is ongoing. The Financial Strategy is now embedded throughout the organisation and it is recognised as one of the Council's key corporate documents. The Strategy puts in place a framework and establishes a strong financial base to aid the delivery of priorities.

As far as possible, the plan anticipates future needs and recognises the financial uncertainties, risks and challenges faced by the Council. We have in place rigorous financial monitoring, and project management processes are being developed. We aim to ensure we hold balances and reserves that we consider adequate without being excessive.

Consequently, Scarborough Borough Council now has in place a sound Medium Term Financial Strategy and a robust financial plan that is designed to support the delivery of the targets in the Corporate Plan and meet the council's objectives.

APPENDIX A

REVENUE BUDGET AND COUNCIL TAX 2017/18

1 INTRODUCTION

This appendix sets out the detailed movements in the revenue budget between 2016/17 and 2017/18, and recommends the proposed budget for 2017/18 along with the associated levels of Council Tax.

It provides details of:

- Areas of budget pressure and unavoidable cost pressure
- The level of revenue resources available to the Council
- Areas of additional investment
- Efficiency and other savings proposals

2 BUILD UP OF THE 2017/18 REVENUE BUDGET

A base revenue budget requirement of £16.390m was approved for the 2016/17 financial year, which forms the starting point for the 2017/18 budget.

Although the Council has made a concerted effort to minimise budgetary growth a number of unavoidable cost increases and budgetary pressures have arisen during the year, as summarised in the following table:

Table 1 – Unavoidable Costs

	£'000
Pay and Price Inflation	552
Other Budget Pressures	514
Total Unavoidable Costs	**1,066**

2.1 Pay and Price Inflation

This increase reflects the inflationary allowances across budget heads along with salary increments and variations. All other income and expenditure budget heads have been fixed at 2016/17 levels and any cost increases will therefore need to be absorbed within individual service area budgets. A contingency of £200k has been retained to cover unavoidable or corporate inflationary cost increases and this will be allocated to budget heads throughout the 2017/18 year as areas of growth are identified. The budget makes provision for a 1% pay award.

As in previous years the 2017/18 budget does not include a corporate provision for salary savings. This reflects that staffing savings are not expected to accrue due to a slowdown in staff turnover. The Council does not budget for recruitment costs therefore it is also assumed that any short term staffing savings will be required to fund associated recruitment and advertising costs.

2.2 **Other Budget Pressures**

A breakdown and further details of these costs are included within Appendix A1 to this report.

3 RESOURCES

3.1 Provisional Finance Settlement

3.1.1 Multi Year Settlement Offer

On 17 December 2015 the Government announced the provisional finance settlement for 2016/17 alongside figures for the following 3 years up to 2019/20. The consultation document circulated alongside the provisional settlement set out that the indicative figures announced for the periods up to 2020 would be fixed for those authorities that: (a) chose to accept them and (b) published an efficiency plan.

The funding streams covered by the multi-year settlement offer comprise Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG) and Transitional Grant. The table below sets out the projected levels of these funding streams over the multi-year offer period.

Table 2 – Multi-Year Settlement Offer Funding Streams

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant	2,129	1,231	672	49
RSDG / Transitional Grant	23	18	13	16
TOTAL FUNDING	**2,152**	**1,249**	**685**	**65**
In year reduction		903	564	620
Total reduction				2,087

The table shows that these sources of funding will reduce by £2.087 million over the period to 2020 (£903k in 2017/18, £564k in 2018/19 and £620k in 2019/20). The government stated that the figures contained within the multi-year offer would be guaranteed for those authorities that chose to accept them, but may change for those authorities that didn't. On that basis the Council opted to accept the offer.

3.1.2 Retained Business Rates

In addition to the funding streams contained within the multi-year offer the Council also retains a share of business rates income. The baseline amount of business rates retained by the Council is determined within the Local Government Finance Settlement and increases by RPI each year. The provisional settlement figures show that, assuming the target level of business rates income is collected, the Council's net baseline business rates income level will increase by £79k in 2017/18.

The table below sets out the reductions in the Council's core grant funding over the period from 2010/11 to 2015/16 (2010 Spending Review Period) and the provisional figures to 2019/20 (2015 Spending Review Period).

Table 3 – Reductions in Local Government Finance Settlement Funding

YEAR	**LGFS FUNDING* £'000**	**CASH REDUCTION £'000**	**% REDUCTION**
2010/11	12,556		
2011/12	11,030	1,526	12.1%
2012/13	10,105	925	8.4%
2013/14	9,719	386	3.8%
2014/15	8,433	1,286	13.2%
2015/16	7,143	1,290	15.3%
REDUCTIONS OVER 2010 SR PERIOD		**5,413**	**43.1%**
2016/17	6,050	1,093	15.3%
2017/18^	5,231	819	13.5%
2018/19^	4,792	439	8.4%
2019/20^	4,292	500	10.4%
REDUCTIONS OVER 2015 SR PERIOD^		**2,851**	**39.9%**

^ provisional figures

CUMULATIVE REDUCTIONS OVER BOTH PERIODS		**8,264**	**65.82%**

*Figures have been adjusted to allow like for like comparisons between years.

The table shows that the Council will receive £8.264m less funding to run its services in 2019/20 than it did in 2010/11, which represents a 66% cut in annual funding.

Although the principle of a 4-year settlement is welcomed and will significantly aid the Council's longer term financial planning the implications and extent of the proposed funding cuts over the period to 2020 demonstrate that the Council will need to fundamentally review how it delivers services in future.

3.2 Council Tax

For the 5-year period between 2011/12 to 2015/16 the Government awarded grants to those Council's which opted to freeze or reduce their Council Tax levels. The Council elected to freeze its Council Tax at 2010/11 levels in each of those years. The Government did not offer a Council Tax freeze grant in 2016/17 and has not offered one in 2017/18.

3.2.1 Council Tax Capping and the Public's Right to Veto 'Excessive Council Tax Increases'

The Localism Act includes the powers to allow local residents to veto excessive Council Tax rises and in 2012/13 the Government introduced arrangements for Council Tax referendums where an authority sets a Council Tax which exceeds principles endorsed by Parliament (i.e. is "excessive").

The council tax referendum threshold principles for 2017/18 for District Councils have been set at the higher of 2% or £5 for a Band D equivalent property.

3.2.2 Proposed Council Tax increase

Given the funding pressures the Council faces it is proposed that a £5 Council Tax increase (2.31%) be applied for a Band D property for the 2017/18 year. This will generate additional income of £185k.

Table 4 below shows the resultant Scarborough Borough Council element of the Council Tax levy by band if Council Tax levels are increased by this amount.

Table 4 – Council Tax levy per band

Band	2016/17	2.31% Increase	
	£	2017/18 £	Increase £
A	144.21	147.54	3.33
B	168.24	172.13	3.89
C	192.28	196.72	4.44
D	216.31	221.31	**5.00**
E	264.38	270.49	6.11
F	312.45	319.67	7.22
G	360.52	368.85	8.33
H	432.62	442.62	10.00

3.2.3 Increase in Council Tax Base and Collection Fund Surplus

Each year the Council calculates its tax base based on the number of properties listed on the Council Tax system. This calculation takes into account chargeable properties, discounts, and exemptions listed in the system as well as projected changes for the following year. In 2017/18 an increase in the projected Council Tax Base will generate additional income of £152k for the Council. This additional income is due to increases in the number of properties as well as reductions in the costs of the Localised Support for Council Tax scheme discount (LSCT).

In addition to the increase in the Council Tax Base the Collection Fund projections anticipate that the fund will also hold a surplus of £1.960 million at the end of 2016/17, which will be available for distribution in 2017/18. The Council's share of this surplus is £258k and as these are one off monies they have been earmarked to part fund the Council's £3 million contribution towards Coast Protection Works (as detailed in Appendix B).

3.3 **New Homes Bonus (NHB)**

In February 2011 the government published the proposals for the NHB – a scheme that was designed to incentivise local authorities to welcome new housing developments. The headline details announced in the original scheme were as follows:

- The scheme is intended to incentivise local authorities to increase housing supply by rewarding them with a grant, equal to the national average for the council tax band on each additional property and paid for the following six years as an unringfenced grant.

- In addition to the above there is a flat rate enhancement of £350 per annum for affordable homes.

- 80% of the Bonus is retained by the Borough Council, the remaining 20% is paid to North Yorkshire County Council

- The NHB is paid as an "unringfenced grant" therefore the Council can decide how it wishes to utilise any monies received.

In its Spending Review and Autumn Statement 2015 the Government announced that it aimed to reduce New Homes Bonus funding by £800m over the Spending Review period and redirect those resources to adult social care. A technical consultation paper on the proposed changes to the distribution method was issued alongside the provisional settlement in December 2015 and the final proposals were announced alongside the 2016 provisional settlement.

The revised proposals can be summarised as follows:

- The period of the grant will reduce from six to five years in 2017/18 then to four years in 2018/19;
- Payments will only be made for housing delivery above an annually determined national baseline figure (0.4% in 2017/18)

The government are also consulting on options to withhold allocations where an authority does not have a local plan in place or in cases where houses are built on appeal;

The Council's NHB allocation totalled £1.288m in 2016/17 and this will reduce to £1.112m in 2017/18. The 2017/18 allocation can be broken down as follows:

Year Awarded	**£'000**
2013/14	264
2014/15	266

2015/16	132
2016/17	335
2017/18	115
TOTAL	**1,112**

Due to the financial difficulties facing the Council the 2016/17 allocation was fully committed to balance the Council's revenue budget in order to minimise cuts in service. The in-year funding reduction of £176k therefore increases the Council's funding gap by an equivalent amount.

3.4 **Localised Business Rate Income Surpluses**

The Local Government Finance Bill was introduced by the Secretary of State in December 2011. The legislation contained within the Bill represented a radical change to the local government finance system and aimed to take forward proposals designed to encourage local economic growth, reduce the financial deficit and drive decentralisation of control over Local Authorities finances. One of the key proposals contained within the legislation was the localisation of business rate income.

Prior to the 2013/14 financial year business rates revenue was collected by local authorities, who then paid it over to central government. Central government pooled the income generated and then redistributed it to local authorities, based on an assessment of their needs. Local authorities were then notified of the amounts that would be distributed as part of the Local Government Finance Settlement.

As local authorities did not retain business rate income it was felt that there was only a limited financial incentive to promote business growth and maximise business rate income collection in their area. In July 2011 the Government published its proposals to allow councils to retain locally raised business rates. These proposals presented a fundamental shift in the way that local authorities are funded, and aimed to free councils from dependence upon central government grant and give them a strong financial incentive to drive local economic growth. The new scheme came into effect on 1 April 2013.

Under the new legislation the Council is set a baseline income level for rates collection in a year. The income collected from business rates is distributed between Central Government, North Yorkshire County Council and North Yorkshire Fire and Rescue Service in predetermined levels and the Council receives a proportional benefit of any surplus income generated above its baseline.

Although the scheme does provide an opportunity for the Council to grow its business rate income and to retain a proportion of any excess, it does invariably also increase the Council's level of budgetary risk as the Council also needs to fund a proportion of any in-year business rate income shortfalls from its own resources. In effect the new legislation switched a large proportion of the Councils core funding from a fixed grant to a variable income source.

The table below sets out Scarborough Borough Council's anticipated share of business rate income for 2017/18 compared to the business rate baseline.

	£'000
Projected Net Yield from Business Rates in 2017/18	35,791
Scarborough Borough Council Share (40%)	14,316
Anticipated grant to cover the Borough Council's share of the cost of government initiatives	1,182
Borough Council Tariff (payable to Central Government)	(9,876)
Retained Business Rates	**5,622**
Business Rate Baseline (per the LGFS)	(4,003)
Surplus Business Rates	**1,619**
50% levy	(809)
Anticipated Retained Growth in Business Rates Income	**809**

The table shows that the Council's share of retained business rates is projected to be £1.619 million higher than the business rates baseline. The Borough Council has opted to form a business rate pool with a number of other North Yorkshire local authorities (see below for further details). If the Borough Council had not opted to join the pool a central government levy of 50% would be applied to the business rate surplus and the Council would expect to retain £809k.

The Council's 2015/16 budget assumed that business rates income would exceed the LGFS baseline by £700k and this is reflected in the base budget position for 2017/18, therefore £700k of the above surplus is fully committed to support the Council's revenue budget. A further £39k has been committed to fund the NNDR Collection Fund deficit for 2017/18, which is detailed in section 3.4.2.

A national business rates revaluation will come into effect on 1 April 2017. The Valuation Office has issued a draft ratings list for commercial properties across the Borough however the list will not be finalised until March 2017. The above figures are based on the values contained within the draft list. The rateable values within the final list will impact on the Council's projected business rates yield and the level of tariff payable to Central Government. Due to the risks and uncertainties relating to the business rates revaluation the remaining £70k surplus has been set aside as a contingency.

If it becomes apparent that the contingency budget is not required the monies will be freed up and directed towards the areas of unfunded priority capital expenditure detailed in Appendix B.

3.4.1 Business Rate Pooling

In 2014/15 the Council entered into a business rate pool with North Yorkshire County Council, Ryedale District Council, Craven District Council, Hambleton

District Council and Richmondshire District Council. This pooling arrangement has been extended to cover the 2017/18 year. The Borough Council is the lead authority for the pool.

Under the pooling regime authorities included within a pool are treated as a single authority for the localised business rate scheme. This has the benefit that any deficit relating to the Council's share of business rates could be offset by surpluses achieved by other pool members rather than from the Council's own resources; however if the Council makes a surplus on its own scheme this could be more than offset by deficits arising on other pool members schemes.

Individually the Council would be required to pay a levy of 50% on its share of surplus business rate income under the localised scheme. The major advantage of creating a pool is that the pool levy rate is reduced to nil when each of the authorities are treated collectively as a single authority. The levies saved through pooling are then distributed back to pool members through a pool dividend.

The key aim of the North Yorkshire pool is that no participant will receive less funding than if they had not pooled. The first call on any net pool surplus will be to put each authority in the position it would have been in had the pool not existed. Any residual surplus will be distributed as follows:

- 20%, upto a maximum of £250k, will be allocated to an economic development fund which will be administered by the Chief Executives and Leaders of the pool authorities as a function of an established subgroup of the NYLEP.

Any remaining pool dividend will be distributed as follows:

- 30% to NYCC
- 35% to districts in proportion to their growth above DCLG baselines
- 35% to districts in proportion to their funding targets

Assuming that each authority within the pool hit or exceed their business rates baselines, and that the Council's business rates income for 2017/18 is in line with expectation, the Council will retain the £809k surplus detailed above (being the surplus that would have been retained if the pool didn't exist) as well as receive a share of any pool dividend. The revenue budget does not recognise the potential receipt of any pool dividends due to the uncertainties relating to the business rates revaluation and the settlement of business rate appeals across the pool. Any dividend received in 2017/18 will be earmarked to progress the unfunded priority capital schemes detailed in Appendix B

3.4.2 NNDR Collection Fund Surplus

Current projections show that the Council will have a deficit on its NNDR Collection Fund. The Council's share of the deficit will be £39k in 2017/18. This will be funded from anticipated business rate surpluses.

4 INVESTMENT IN PRIORITY AREAS

Members, Directors and Service Unit Managers, in conjunction with Finance Staff, have been asked to identify any areas where additional investment is required, with particular reference to local and national priorities.

The areas proposed for additional investment are summarised in Table 5 below, with further details provided in Appendix A2.1

Table 5 – Meeting Priorities

Service	Bid	£'000
Corporate	Increase in ongoing revenue contributions to capital and borrowing costs	192
Corporate	One off contributions to fund capital / one–off costs in 2017/18 (see Appendix B for details)	250
Corporate	Contribution to Local Enterprise Partnership	15
Corporate	Funding to address seagull issues across the Borough	36
		493

Further details are provided within Appendix A2.1.

Investment Fund

The 2016 Financial Strategy established an Investment Fund of £594k to provide one-off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond. A further £626k was transferred to the reserve from the 2015/16 year-end underspend.

During the year officers undertook a review of earmarked reserves with an aim of freeing up uncommitted resources. This review identified £188k of one-off monies that are available for allocation and these monies have been transferred to the Investment Fund. Given the financial pressures facing the Council in the coming years it is also proposed that any year-end underspend achieved in 2016/17 be transferred to the reserve.

The authority to approve expenditure from the Investment Fund is delegated to the Director's Team in consultation with the portfolio holder for Finance, Legal and ICT. The following indicative funding bids have been, or will likely be, funded from the reserve over the 2016/17 and 2017/18 financial years:

- £93k Phase 1 – new Whitby kiosks
- £88k Restructure of TIC provision across the Borough

- £30k Transformational training / equipment and resources
- £250k Public Conveniences review
- £80k MOT facilities at Dean Road depot garage
- £55k In Cab devices for refuse freighters
- £105k Fleet Management system and implementation
- £25k External support for the review of Dean Road / Manor Road depot facilities
- £17k Essential works at the Crematorium

The original financial projections for the period to 2020 showed that the funding gap for 2017/18 was significantly higher than the funding gap identified for the following two years. Given that the transformation programme will take time to evolve and identify savings it was agreed that £0.5 million reserves would be utilised in 2017/18 to reduce the level of savings required in that year and equalise the savings targets over the 3 year period. This £0.5 million will be funded from the Investment Fund.

Assuming that the 2016/17 year-end revenue underspend is in line with current expectation (£322k) the uncommitted balance on the reserve will stand at approximately £0.5m after allowing for the above expenditure.

Future expenditure from the Investment Fund will be driven by the Council's transformation and savings programme.

5 FUNDING GAP

Taking into account the details contained within the previous sections of this Appendix, and assuming the approval of the proposed Council Tax increase, the following table summarises the funding gap for 2017/18.

Table 5 – Summary of Funding Gap for 2017/18

	£'000	£'000
Base Revenue Budget for 2017/18		16,390
Unavoidable Costs (Per Table 1)		1,066
Investment in Priorities (Per Table 5)		493
		17,949
Last Year's Financing*	16,120	
Reduction in multi-year settlement offer (Section 3)	(903)	
Increase in retained business rates income baseline	79	
Reduction in New Homes Bonus allocation	(176)	
Increase in Council Tax Base (Section 3)	152	
Increase in Council Tax Charge (Section 3)	185	
Resources available		(15,457)
Funding Shortfall		**2,492**
Contribution from Reserves		(500)
Funding gap to be bridged with savings		**1,992**

* Financing was £270k less than budget requirement due to an approved draw from the General Fund Reserve.

This leaves a shortfall of £1.992 million that needs to be addressed through additional funding, efficiency and other savings.

6 PROPOSED SAVINGS OPTIONS

Senior Management have adopted the identification and achievement of savings as an integral part of the Council's budget setting process. Work to identify savings starts early in the preceding financial year, ensuring that there is sufficient time to implement full year's savings and to consult with relevant stakeholders.

The savings options identified to date total £1.992m and are detailed in Appendix A3.

7 STAFFING IMPLICATIONS

The Council has recognised that to achieve efficiency savings that minimise the impact on the delivery of front line services there will be a need to reduce staffing numbers, which will inevitably result in redundancies.

Where possible, all employees that could be directly affected by the changes will be notified prior to this report being published. Any savings proposals affecting staff will be closely managed and consultation will take place with all Trade Unions. The Council has a strong commitment to try and minimise the impact on staff and number of compulsory redundancies by utilising natural wastage and providing some training for staff to support this.

8 SUMMARY OF THE 2017/18 BUDGET POSITION

Table 7 summarises the net budgetary position as detailed in this report.

Table 7 – Summary of Budget Position

	Report Table Reference	£'000
Funding Shortfall	Table 5	2,492
Contribution from Investment Fund	Table 5	(500)
Efficiency and Other Savings	Section 6	(1,992)
Shortfall		**-**

The table shows that a balanced budget position has been achieved.

The Council's Medium Term Financial Plan shows that there will be a requirement to identify further savings of at least £2.1m in 2018/19 and £1.3m in 2019/20 therefore it is considered essential that a balanced budget be set in 2017/18, particularly given that a substantial draw from reserves is already incorporated within the budget proposals.

In order to set a balanced budget there is a requirement to approve all of the savings proposals identified in this report. Where savings are not deemed to be acceptable alternative savings of an equivalent value will need to be identified.

9 ASSESSMENT

The Revenue Budget for 2017/18 continues to build upon the success of the Financial Strategy, which is now clearly embedded throughout the Council; and the budget efficiency and other savings requirements were identified in the Medium Term Plan well in advance.

As resources become tighter it becomes even more important to ensure that the budgets approved in a year are robust and achievable. Directors and Service Unit Managers receive a high level of support from the finance team however it is acknowledged corporately that the responsibility for setting, monitoring and controlling budgets must lie with the managers and directors responsible for running the services. Directors will be asked to sign off the savings included within this report to confirm that they believe them to be deliverable and both Service Unit Managers and Directors will be required to sign off the final budget figures for their service areas.

Central Government have provided provisional grant settlement figures for the four year parliamentary period to 2019/20 and, although the principle of a four-year settlement is welcomed and will aid the Council's longer term financial planning, the level of the funding cuts proposed are extensive and show that in cash terms the Council's core annual funding from central government in 2019/20 will be £8.264m (66%) less than the funding received in 2010/11. These funding cuts are exacerbated by the Council's decision to aid its tax payers by freezing Council Tax levels between the periods from 2010/11 to 2015/2016 and forego the associated ongoing revenue streams that Council Tax increases could have secured.

The extent of the Council's budget shortfall each year is not only dependent on cuts in funding, but also by the level of growth required in the revenue budget. The Council has made a concerted effort to reduce the levels of growth included within this year's budget and this is demonstrated by the minimal amounts of additional funding provided for ongoing priority investment; however unavoidable cost and inflationary pressures totalling £1.066m have been identified and continue to put strain on the budget position. In addition the Council is proposing to borrow further monies to progress essential Coast Protection works across the Borough and this continues to put further strain on the Council's revenue budget. As the Council's funding sources reduce, and budgets get tighter, it will become increasingly important to restrict growth in budgets and be mindful that any growth allowed in budget will need to be funded from corresponding cuts in other service areas.

The Council's Medium Term Financial Plan shows that there will be a requirement to identify further budget savings of at least £2.1m in 2018/19, £1.3m in 2019/20 and it is clear that strong long term financial planning will become increasingly important as funding reduces and resources become scarcer.

The financial forecasts and extent of funding cuts over the period to 2020 demonstrate that the Council will need to fundamentally review how it delivers services in future and that Members will be asked to make difficult decisions in the coming years to prioritise services in order to balance the budgetary position and maintain the Council’s financial sustainability.

APPENDIX A1

BUDGET PRESSURES

		£
Benefits and Localised Support for Council Tax Administration Subsidy	The Council receives an annual subsidy for Housing Benefit and Local Support for Council Tax Administration. In 2016/17 the grant allocation totalled £622k, for which £124k was for administering the Localised Support for Council Tax (LSCT) Scheme and £498k was for administering the Housing Benefit Scheme. In similar vein to recent years, Central Government have again cut the administration grants to account for efficiency targets. Whilst the Council have not yet received an indication of the LSCT element of the grant from DCLG, it is expected that the Borough Council's award for 2017/18 will be cut to £572k (£115k for administering the Localised Support for Council Tax Scheme and £457k for administering the Housing Benefit Scheme). The reduction in grant funding equates to £50k (8.04%).	50
Recycling costs and income	Under current arrangements the Council has a contract with a third party provider for the disposal of recycling waste. This contract was renewed part way through the 2016/17 financial year. Prior to the contract renewal the Council received a premium of £7.50 per tonne for all recycling material collected (excluding garden waste), however as a result of price reductions in the international markets for recycling materials the Council now incurs a cost for its disposal. Growth of £300k was included in last year's budget, which reflected the part year impact of the change in contract prices. The £100k growth for 2017/18 reflects the full year effect of the price change.	100
Business Rates revaluation	The amounts of business rates payable on commercial properties are periodically revalued nationally to take into account variations in market rents across the country. The last valuation was done in 2010 and a new ratings list will come into effect on 1 April 2017. The draft list, which was received in September, shows that business rates payable on Council owned properties are expected to increase by approximately £0.5m over the period to 2020. This increase will be partially mitigated in the earlier years through transitional relief and will come into effect as follows: £115k 17/18, £186k 18/19, £189k 19/20. The increase primarily relates to significant increases in the rateable value of Council owned car parks and is being queried with the valuation office.	115
Apprentice levy	A new apprentice levy of 0.5% on company pay bills was announced in the 2015 Autumn	

		£
	Statement. The new charge will come into effect in April 2017 and will help with the costs of training new workers. A £15,000 allowance for employers means that the levy will only be paid on employers' bills over £3m. To keep the process as simple as possible the 'pay bill' has been based on total employee earnings subject to Class 1 secondary NICs. Based on the Council's current pay bill, the annual levy will be £65k.	65
Insurance premium tax	Insurance premium tax (IPT) is a tax paid on general insurance premiums and, unlike VAT, is not a recoverable tax. Any increases in the amounts paid therefore lead to increased costs for the council. There have been a number of increases in this rate recently, the first one of which was announced in the 2015 Summer Budget. This saw the rate increase from 6% to 9.5% and was effective from 1 November 2015. The 2016 budget outlined a further increase in IPT with this increase to 10% being effective from 1 October 2016. With the Council incurring insurance costs of over £500k per year, this 4% increase will lead to an additional cost to the Council of £20k. Despite these recent increases, the 2016 Autumn Statement outlined a further rise to 12%. With this not being effective until part way through the year this increase has not yet been reflected within the Council's budget.	20
Transformation	The Council sees transformation as the cornerstone of its efficiency savings programme. A team of business analysts have been identified from within existing staffing resources and have been seconded to the transformation programme with an aim of reviewing and improving current processes. The £34k growth included within the budget reflects the Council's decision to permanently recruit one of the seconded employees into a transformational post. The post that the seconded employee has left will not be back filled therefore this growth has been funded from corresponding staffing savings within the housing benefits unit.	34
Pension – auto enrolment	October 2017 sees the next major phase of the Council's pension auto enrolment obligations. Legislation will require 71 staff members who are not currently part of the Council's workplace	

		£
	pension automatically enrolled into the scheme. Whilst these staff members will have the option of once again opting out, inertia coupled with the continued reminder that retirement planning is important will see many staff members remain in the scheme. The cost of a full take up would be £265k although it is recognised that some officers already have alternative retirement plans in place or do not see a pension as a priority at this stage in their life. In addition to the officers outlined above, there are other staff members who are not currently in the pension scheme but who are in a different part of the 3 year cycle. Take up from this phase will be used to estimate the likely uptake from the remaining employees.	130
TOTAL		**514**

APPENDIX A2.1

MEETING PRIORITIES – BASE BUDGET GROWTH

BID	DETAILS	£'000
Increase in revenue contributions to fund capital expenditure and borrowing costs	The council must increase its annual contributions into the Capital Development Reserve to make provision for future projected capital expenditure and borrowing costs, particularly in respect of asset management and coast protection works.	192
Funding for one-off capital works	It is becoming apparent that the funding available to progress one off priorities and essential capital works is diminishing and demand for resources significantly outweighs the funding available. As capital resources are already overcommitted the following revenue contribution is required to fund one-off works in 17/18.	250
Local Enterprise Partnership	The annual contribution to the Local Enterprise Partnership has been funded from one-off resources and reserves in recent year. This budgetary growth will provide an annual base budget to fund the contribution.	15
Seagulls	Seagulls are becoming an increasing nuisance throughout the Borough and this funding looks to implement a disruption and dispersal programme for herring gulls in specific locations in Whitby and Scarborough. This procedure will use falconry response in conjunction with regular gull egg and nest removal under general license as a method of effective bird control. This makes the area undesirable to the Herring Gulls and encourages them to establish a new pattern of behaviour in another area. Once the Herring Gulls learn that there is a potential predator in the area (and have moved away) only a periodic maintenance program will be required in order to maintain control and to keep a predator presence.	36
TOTAL		**493**

EFFICIENCY AND OTHER SAVINGS PROPOSALS

Description	Service Area	Low Risk	Medium Risk	High Risk	Total	FTE	Comment
Chief Executive							
General budget savings and removal of vacated posts within Human Resources	Human Resources	28,717			28,717	1.00	Removal of vacated posts and unutilised hours. No impact on service delivery
Transformation Savings (Postage, Print Plus and Crem)			119,542		119,542		Savings from ongoing transformation reviews on postage, Print Plus and the crematorium. Savings not yet identified therefore classified as medium risk
General budget reductions	IT	16,566			16,566		Savings identified on various budget heads including overtime, comms lines and corporate licences
Increase capital recharge budget	Capital & Procurement	8,000			8,000		Saving resulting from an increase in capital salary chargeout rates
Sub Total Chief Executive		53,283	119,542	0	172,825	1.00	
Director (NE)							
General budget savings and removal of vacated salary posts in Local Taxation	Corporate Finance	27,341			27,341	1.00	Savings delivered through the introduction of more efficient ways of working. No impact on service delivery
General budget savings and removal of vacated salary posts in Transactional Finance	Corporate Finance	13,000			13,000	0.50	Savings delivered through the introduction of more efficient ways of working. No impact on service delivery
General budget savings and removal of vacated salary posts in Accountancy	Corporate Finance	19,000			19,000	1.00	Savings delivered through the introduction of more efficient ways of working. No impact on service delivery
Efficient recovery and management of housing benefit overpayments	Corporate Finance	100,000			100,000		Additional income derived from the collection of overpaid housing benefits following continued improvements in working practices and recovery procedures.
General budget savings at Scarborough Harbour	Harbours	50,000			50,000		General budget savings currently being achieved at Scarborough Harbour. No impact on service delivery

APPENDIX A3

EFFICIENCY AND OTHER SAVINGS PROPOSALS

Description	Service Area	Low Risk	Medium Risk	High Risk	Total	FTE	Comment
Refuse Collection and Street Cleansing	Refuse / Cleansing	379,000			379,000		Transformation review is underway. Savings have been agreed with the service area. Savings include the additional income generated from the garden waste scheme and the billing of holiday let properties
Transformation Savings	Transformation	(120,000)			(120,000)		Transformational savings included in the 2016/17 budget identified from the review of refuse collection and street cleansing
Transport	Transport	100,000			100,000		Savings expected to be derived from the modernisation of processes and implementation of the findings from an external review of the Transport Service undertaken in 2015
Transport	Transport	30,000			30,000		Introduction of MOT facilities at Dean Road Depot
2% inflationary increase on rental property income targets	Estates	34,000			34,000		Corporate policy to inflate income targets by 2%
2% inflationary increase on income targets at Scarborough Harbour	Harbours	11,772			11,772		Corporate policy to inflate income targets by 2%
2% inflationary increase on income targets at Whitby Harbour	Harbours	20,691			20,691		Corporate policy to inflate income targets by 2%
Public Conveniences Review	Public Conveniences			100,000	100,000		Savings expected to be derived from a review of public convenience provision across the Borough. Savings classified as high risk as the proposals have not yet been agreed; although negotiations are progressing well
Rental Income	Estates	25,000			25,000		Based on current income. Over and above the 2% target increase
Remove budget for external contribution for Whitby Industrial Units	Estates	36,866			36,866		NYCC interest in property expired.
Increased rental income for Whitby Industrial Units	Estates	8,297			8,297		Based on current income. Over and above the 2% target increase
2% inflationary increase on income targets in Parks service	Parks	6,168			6,168		Corporate policy to inflate income targets by 2%
Industrial Units - reduction of general revenue budgets	Estates	9,730			9,730		Reduce historic miscellaneous budgets that have been created from previous rent reviews.
Town Hall rental income	Estates	17,000			17,000		Based on current income levels being achieved

APPENDIX A3

EFFICIENCY AND OTHER SAVINGS PROPOSALS

Description	Service Area	Low Risk	Medium Risk	High Risk	Total	FTE	Comment
Contingency budgets	Corporate	99,780			99,780		Contingency budgets included in previous years no longer required
Reduce Insurance excess costs	Corporate	20,000			20,000		Reduced insurance excess costs and claims following the historic transfer of the highways agency
Sub Total Director (NE)		887,645	0	100,000	987,645	2.50	
Director (LD)	-						
Administration efficiencies	Administration	13,736			13,736	0.50	Removal of residual salary budget and partnership contributions. Post already vacated and partnership no longer exists therefore no impact on service delivery
Restructure and creation of Information Officer post	Administration	15,043			15,043	0.50	Deletion of post within the establishment along with removal of surplus budgets. Saving partly offset by the creation of an information officer post to address current workloads and slight in increase in hours/grade of a current part time post.
Removal of vacant salary budget following the transfer of 1 FTE resource to transformation	Housing Benefits	29,505			29,505		Post will be back filled internally
Reductions in admin support to Senior Management Team	Administration	19,822			19,822	1.00	Restructure of support team and reduction of 1 FTE
Total for Director (LD)		78,106	0	0	78,106	2.00	
Director (TW)							
Reduced salary budget from partial removal of vacant conservation officer post	Planning	12,000			12,000	1.00	Conservation officer work to be absorbed within existing resources
Remove unallocated salary budget from reduction in hours in previous year	Planning	8,526			8,526		Saving already implemented. No impact on service delivery
Remove miscellaneous budgets	Planning	15,357			15,357		No impact on service delivery

APPENDIX A3

EFFICIENCY AND OTHER SAVINGS PROPOSALS

Description	Service Area	Low Risk	Medium Risk	High Risk	Total	FTE	Comment
Increase income budget (2% inflationary increase)	Planning	12,492			12,492		None
Further increase to income budget above inflationary increase	Planning	17,508			17,508		None
Reduced postage costs by no longer writing to neighbours in respect of planning applications	Planning	5,000			5,000		May receive criticism from affected members of the public. Mitigate by using improved public notices (brighter and more obvious).
External contribution from NYPA towards running costs of CCTV centre	CCTV	22,655			22,655		Additional external income. No impact on service
Reductions in voluntary sector grants	Grants	3,000			3,000		Phase out other voluntary sector grants over a 3 year period. Grants will reduce from the current total of £15k to £12k in 17/18. Details reported to O&S Committee in Oct 16
Increase in car parking income budgets	Car Parking	300,000			300,000		Increase in car parking income targets to reflect income generated in 16/17 and price increases proposed for 17/18. Risks associated with this increase if weather is particularly poor
Reductions in voluntary sector grants to play centres and boxing club	Grants	12,000			12,000		External bodies may be dependant upon funding stream however all affected bodies were made aware of the tapering funding reductions in 2014 to allow them to plan for the transition
Removal of Customer First resource at Eastfield Library	Customer First	3,900			3,900		Saving due to no longer paying NYCC external rent for our occupancy. Analysis shows that demand for the service is low and resources could be better utilised at the main Customer First site. Decision could impact on the sustainability of Eastfield library.
Scarborough Market	Markets	60,000			60,000		Reductions in net operating costs following capital investment at Scarborough Market
York Housing Association - Kelia Court	Housing	10,000			10,000		The Council pays a fixed annual contribution to York Housing Association for provision of sheltered accommodation at Kelia Court. Budget previously included values for the payment of void losses incurred by the housing association. These have historically been lower than budgeted producing a £10k saving.

EFFICIENCY AND OTHER SAVINGS PROPOSALS

Description	Service Area	Low Risk	Medium Risk	High Risk	Total	FTE	Comment
Temporary Accommodation	Housing	45,000			45,000		Throughout recent years the Council, alongside Registered Social Landlord (RSL) partners, have undergone various schemes to reduce the requirement to utilise Bed & Breakfasts to provide accommodation for the homeless. These initiatives have taken the form of utilising prudential borrowing and S106 monies to use as match funding with RSL's to assist in the bringing back into use of specific buildings to use as temporary accommodation. As a consequence even though demand for homelessness accommodation has risen the Council's requirement on B& B accommodation has reduced, providing significant savings.
Homeless Prevention Bonds	Housing	50,000			50,000		Repayable bonds previously provided to aid people in finding accommodation, resulting in lower homelessness costs to the council. Saving due to a mixture of being able to utilise DHP discretionary payments and a lower provision on non-repayments of the bonds.
Staffing savings in outdoor leisure	Outdoor Leisure	40,000			40,000		Reductions in outdoor leisure staffing savings following a review of the service during 2016/17. No impact on service delivery
Increase in fees and charges at the crematorium	Cems and Crem	20,000			20,000		Fees will increase from £650.50 to £699.50. Part of the additional income generated will be used to increase understated expenditure budgets within the service
2% inflationary increase on income targets at outdoor leisure attractions and community centres	Outdoor Leisure	20,881			20,881		Corporate policy to inflate income targets by 2%
2% inflationary increase on income targets at community centres	Customer Services	3,119			3,119		Corporate policy to inflate income targets by 2%
Home Improvement Agency		42,200			42,200		Savings from administering increased DFG allocations

APPENDIX A3

EFFICIENCY AND OTHER SAVINGS PROPOSALS

Description	Service Area	Low Risk	Medium Risk	High Risk	Total	FTE	Comment
Closure of Tourist Information Centres	Tourism	50,000			50,000		Year 1 effect of closure of the Council's TIC sites, rental of buildings and refocus of resources. This proposal has already been approved by Members - report reference 15/336 (December 2015). Final figures are being calculated based on anticipated rental receipts etc.
Total for Director (TW)		753,638	0	0	753,638	1.00	

Overall Total (excluding those where savings not known)		**1,772,673**	**119,542**	**100,000**	**1,992,215**	**7.00**	

APPENDIX B

CAPITAL BUDGET

1 INTRODUCTION

This appendix focuses on the Council's Capital Strategy which is underpinned by the Capital Development Reserve and Investment Management Plan.

It provides details of:

- Capital Development Reserve projections
- Investment Management Plan projections
- Additions to the Capital Programme 2017
- Unfunded asset management works
- Unfunded infrastructure works
- Capital Receipts
- Prioritisation of unfunded schemes and funding available

2 CAPITAL DEVELOPMENT RESERVE (CDR)

The Capital Development Reserve identifies the capital funding available to the Council to progress:-

- Planned vehicle and equipment replacements
- Planned infrastructure works and replacements
- Asset Management works; and
- Statutory requirements (such as the provision of disabled facility grant funding)

The reserve aims to match available capital resources to scheduled investment over a 10 year period to ensure that capital resources are not over committed. It provides a mechanism by which capital spending is controlled, and ensures that the implications of capital spending in terms of the revenue impact are planned and minimised.

In order for Members to have confidence when making the major strategic decisions required on capital investments, clear direction is required on the availability of resources and the impact of decisions made.

The 2016 Financial Strategy set out that the CDR projections showed a surplus balance over the 10 year period to 2026 of £349k; however the reserve showed overcommitted balances in some of the later years therefore no proposals were made to commit monies from the reserve in 2016/17.

The CDR projections have been rolled forward one year for the 2017 Financial Strategy and, after allowing for the additional contributions, show a revised surplus balance over the 10 year period to 2027 of £367k. The reserve does however still show overcommitted balances in some of the later years therefore the proposals to commit monies from the reserve in 2017/18 have been restricted.

It is proposed that a £90k match funding contribution towards a Heritage Lottery Funding Bid for South Cliff Gardens will be funded from the reserve in 2017/18.

The Council can only generate more capital resources by increasing its amount of capital receipts or the level of unsupported borrowing. The Council has some schemes that could generate capital receipts in the short to medium term; however at this stage these capital receipts are not certain therefore they are not reflected in the above projections. This should ensure that capital resources are not overcommitted.

3 INVESTMENT MANAGEMENT PLAN (IMP)

Despite significant financial constraints the Council has developed, and continues with, an ambitious investment and regeneration plan for the Borough.

The Investment Management Plan (IMP) provides a structured approach to support the delivery of major investment and regeneration schemes over the medium term. The key aim of the IMP is to focus on making continuous well balanced, affordable investments in order to improve and change the face of the Borough; with a clear focus upon economic regeneration, employment and new homes.

In the same way as the Capital Development Reserve identifies the funding available to progress scheduled and essential expenditure the IMP details those monies available and earmarked for regeneration projects.

The following schemes are included or have been delivered through the IMP.

- Waterpark
- Leisure Village
- Whitby Business Park
- Futurist/Town Hall
- Middle Deepdale
- Pindar All Weather Sports Pitch

All monies available in the IMP are fully committed to the above schemes.

4 CAPITAL CONTINGENCY RESERVE (CCR)

The current uncommitted balance on the CCR is £610k and a further £100k contribution will be added to the reserve in 2017/18.

The Council has an extensive capital programme, particularly given the imminent commencement of significant capital schemes such as the Futurist and Coast Protection works, therefore it is deemed prudent to predominantly retain the balance of the reserve at this level.

It is proposed that a £26k contribution towards the resurfacing costs of Scarborough Town Centre be funded from the reserve in 2017/18.

5 ASSET MANAGEMENT SCHEMES

A number of years ago £300k was top sliced from the Council's annual property repair revenue budget and was transferred to the Capital Development Reserve. This reflected that a proportion of the works required to the Council's assets were capital in nature and subsequently should sit within the wider capital programme.

These monies have been continually taken to the reserve and some of the funds have been utilised to progress asset management works. The £300k top sliced from the property repair fund bears no resemblance to the level of capital asset management works required across the Council's property holdings. To inform the 2016 capital budget process, and ensure that all outstanding capital commitments are recognised in the Council's Capital Strategy officers from Estates and Finance undertook an exercise to identify essential and priority maintenance backlogs and any funding sources available to address and progress them.

At the time the exercise was undertaken outstanding and unfunded works totalled £7.308 million up to the period ending 2020. While this is a significant figure it should be considered in the context of the Council's property portfolio which is valued at £192 million. Table 3 below provides a breakdown of the works that are still to be addressed within the Council's budget.

Table 3 – Breakdown of Unfunded Asset Management Works (2016)

Asset	Cost Requirement		Works covered by proposed redevelopments / reviews £k	Total £k
	Immediate £k	Future £k		
Scarborough Spa		180		180
Westwood Car Park		260		260
Town Hall - Civic	487			487
Town Hall – Other			1,876	1,876
Hard Standings		70		70
Total	**487**	**510**	**1,876**	**2,873**

The funding for the Town Hall Civic building (£487k) has not yet been identified within the budget and it is recognised that this cost must be factored into the Council's future financial plans.

6 INFRASTRUCTURE SCHEMES

In line with the works undertaken on asset management schemes, officers from Finance together with the Council's Coastal Protection Engineers identified those infrastructure assets and forthcoming coastal defence works requiring funding over the medium term.

The major schemes identified within the review were flood alleviation works at Filey and coastal defence and stabilisation schemes at Scarborough Spa, Whitby Piers and Eskside Wharf. The 2016 Financial Strategy established a fully funded budget of £1.5million to provide match funding towards the works required at Eskside Wharf.

The Council no longer receives 100% grant funding to carry out coastal protection works. New Environment Agency funding regulations dictate that the level of funding offered directly correlates to the level of benefit received. The 2016 Financial Strategy proposed that a capped £3m Council contribution be established to progress essential Coast Protection and flood alleviation works. The £3m contribution was to be funded from borrowing factored into the 2017/18 budget and future capital receipts, in equal proportions. The revenue costs associated with the £1.5million borrowing are incorporated within the budget proposals set out in Appendix A and all surplus capital receipts generated during 2016/17 have been earmarked to fund the remaining £1.5million of the budget along with the Council's share of the 2017/18 Collection Fund surplus. After allowing for these amounts £101k of the £3 million remains unfunded and will be taken as a first call from any surplus capital receipts generated in the remainder of 2016/17 and the 2017/18 year.

As the scheme designs, costings and tendering processes across the various coastal protection schemes have progressed it has become apparent that the proposed £3m capped contribution will not be sufficient to deliver the Whitby Pier stabilisation scheme and the contribution will need to be increased in future years. Works are currently ongoing procuring a specialist consultant, who will be employed to procure a contractor and manage the delivery of the Whitby Pier project. The initial part of these works is to project manage the construction tender stage and finalise the design in order to obtain a firm price for the scheme. These design and preliminary investigation aspects of the scheme are fully funded and will continue to be progressed with a view to commencing the stabilisation works in 2018/19. Although funding for the completion of the stabilisation works has not yet been identified the Council remains fully committed to the scheme and will class it as its highest funding priority in future year Financial Strategies.

7 CAPITAL PROPOSALS FOR 2017/18

7.1 PROPOSED ADDITIONS TO THE CAPITAL PROGRAMME IN 2017/18

It is becoming apparent that the funding available to progress one-off priorities and capital schemes is diminishing and demand for resources significantly outweighs the funding available. Given the pressures on the revenue budget it is essential that the Council does not over commit its capital resources, therefore the new schemes proposed for investment in 2017/18 have been restricted to the following:

	SBC Contribution £'000	Funded from
Town Centre Resurfacing	26	Capital Contingency Reserve
South Cliff Gardens	90	Capital Development Reserve
Peasholm de-silting	251	£171k Operational Reserves. £80k One-off revenue resources
Khyber Pass toilets	70	One-off revenue resources
Royal Albert Drive demolition	30	One-off revenue resources
Peasholm essential works	20	One-off revenue resources
Business Park road adoption costs	50	One-off revenue resources
TOTAL EXPENDITURE	**537**	
Funded from:		
Capital Contingency Reserve	26	
Capital Development Reserve	90	
One off resources*	250	
Operational Reserves	171	
TOTAL FUNDING	537	

* The £250k funding has been made available through a one-off contribution from revenue, as detailed in Appendix A.

In addition the Council will continue to fund the cost of scheduled vehicle and equipment renewals and lighting column replacements from the Capital Development Reserve.

7.2 UNFUNDED PRIORITY CAPITAL EXPENDITURE

The 2016 Financial Strategy set out that, at that time, the budget did not make provision for Town Hall civic asset management (£487k) works and a further £600k anticipated or cemetery provision across the Borough. This continues to be the case. In addition Section 6 details that the Council's contribution towards Coast Protection works needs to be increased and essential works at Peasholm and the crematorium need to be addressed.

Any future surplus capital receipts or other available monies will be allocated to progress the above unfunded schemes in the following order of priority:

1. Essential works at Peasholm (required to maintain income streams)
2. Priority works at the Crematorium (required to maintain income streams)

3. Contribution to Coast Protection works
4. Cemetery provision
5. Town Hall Civic asset management works

It is proposed that an interim budget report be produced following the finalisation of the 2016/17 outturn position to identify the funding required to progress some of the schemes.

8 POTENTIAL RESOURCES FOR UNFUNDED CAPITAL EXPENDITURE

Business Rates Pool Dividend

The Council is a member of the North Yorkshire Business Rates Pool and receives a dividend from the pool if the net business rates income generated by pool members is in excess of baseline targets in any one year. The 2016 Financial Strategy did not commit the potential 2016/17 pool dividend due to the uncertainties relating to the settlement of business rate appeals across the pool and stated that any dividend received will be earmarked for the Investment Management Plan or to reduce future year borrowing requirements. This continues to be the case for the potential 2017/18 dividend.

The value of the 2016/17 pool dividend will not be known until the accounts are finalised in June 2017. Original estimates showed a potential dividend of £400k, however this assumes that settled appeals are in line with estimate. To ensure that resources are not overcommitted dividends will not be allocated to schemes until they are realised.

Upfront payment of pension fund contributions

Following the 2016 triennial pension valuation the Council is exploring the opportunity of prepaying the next 3 years back-funded element of pension scheme contributions during 2017/18. The other options available to the Council are monthly payments over the three year period or annual payments in April of each year (which was the option chosen for the last three years).

The table below outlines the cash payments that would be made under each of the three scenarios:

	Total cash payment	Saving vs monthly option
Paid monthly	5,632,000	
Paid annually in advance	5,512,000	120,000
Paid 3 years in advance	5,278,100	353,900

Whilst making a one payment would generate cash savings of £353,900, funding this upfront payment would lead to lower cash balances (and therefore lower interest receipts during the period). Once the reductions in interest receipts are taken into account, the revenue saving over the period would be £267k (this would reduce significantly should the Council need to borrow to fund the upfront payment).

Officers are currently reviewing options to prepay the backfunded element as one lump sum in 2017/18. If the Council has sufficient cash balances to fund the payment without borrowing, then £267k would be available for one-off priority funding bids over the three year period.

One off Treasury Management Savings
In recent years the Council has increased its borrowing requirement to fund a number of capital schemes. The revenue budget was prepared on the basis that the Council would borrow external monies from the Public Works Loan Board to fund this expenditure and would incur interest payments of up to 2.5% on this borrowing.

Due to the particularly low interest rate environment it has been cost effective in the short term for the Council to utilise cash balances, which are only yielding returns of up to 0.75% when invested, to provide a share of the required funding rather than take out external borrowing. This, coupled with some slippage in the timings of the capital expenditure being incurred, may result in one-off treasury management savings within the 2017/18 budget.

Capital Receipts

The Capital Development Reserve matches the various sources of capital funding available on a scheme by scheme basis. Capital receipts provide a key source of funding for capital investment purposes. From 2018/19 onwards the only capital receipts factored in the capital programme relate to the disposal of replaced fleet vehicles. This reflects that the Council's surplus asset holdings are reducing and capital receipts are becoming harder to achieve.

The Council holds some plots of land which may generate capital receipts in the short to medium term. Any such receipts are not reflected in the Council's capital projections, which should ensure that resources are not overstated and committed prior to the capital receipts being obtained.

The first call on any future capital receipts will be to fund the priority schemes set out within Section 7.2.

9 CAPITAL RESERVE LIST

The following schemes will be included on the Council's capital reserve list and will be progressed should resources allow, once the schemes detailed in Section 7.2 have been addressed:

- Resurfacing works at Dock End Whitby
- Contribution towards sports facilities in Filey

10 SUMMARY

Table 4 below summarises the proposed additions to the capital programme for 2017/18.

Table 4 – Additions to the Capital Programme 2017

Scheme	Total Cost £'000	External Funding £'000	Net Cost £'000
Vehicle and Equipment Replacement			
• Vehicles	542	-	542
• Equipment	108	-	108
• IT	189	-	189
Planned Infrastructure			
• Lighting column replacements	100	-	100
• Coast Protection Works	3,000	???	3,000
Statutory Requirements			
• DFG's	1,145	1,145	-
Other			
• Town Centre Resurfacing	26		26
• South Cliff Gardens	424	334	90
• Peasholm de-silting works	251		251
• Khyber Pass toilets	70		70
• Royal Albert Drive demolition	30		30
• Peasholm essential works	20		20
• Scarborough Business Park road adoption costs	50		50
Total	**5,955**	**1,479**	**4,476**

Further details on the nature of these schemes are provided in Appendix B1.

11 ASSESSMENT

The full commitment of available capital resources, the need to borrow significant amounts in recent years, and the requirement to fund a large proportion of the current year expenditure via a one-off contribution from revenue demonstrates that the Council has insufficient capital resources to meet current demand.

The only way the Council can increase its capital resources is to generate capital receipts or increase its levels of unsupported borrowing. The costs of borrowing impact on the Council's revenue budgets, which are already under pressure due to the ongoing funding cuts.

The first call on any future capital receipts or available monies will be to fund the priority schemes listed in Section 7.2.

APPENDIX B1

CAPITAL EXPENDITURE PROPOSED FOR INCLUSION IN 2017/18

SCHEME	TOTAL COST £'000	DETAIL
VEHICLE AND EQUIPMENT REPLACEMENT		
Vehicles	542	Separate provision exists within the Capital Development Reserve for the replacement of essential, operational vehicles. The Operations Manager assesses the condition of existing assets prior to relevant replacement decisions being made.
Equipment and bin replacements	108	The Council holds a separate provision for the replacement of refuse bin stocks and boats for Peasholm boating lake.
IT systems and enhancements	189	The Capital Strategy provides £2.312 million worth of investments in IT over the 10 year period covering the financial years 2015/16 – 2025/16. The strategy incorporates a base investment of £189k per annum in order to keep the Councils IT infrastructure up to date and compatible with modern working practices.
PLANNED INFRASTRUTURE		
Lighting Columns	100	Previous approval has been granted for the allocation of £1 million from the Council's capital programme for the replacement of concrete lighting columns across the Borough. This is a 10 year phased programme in conjunction with North Yorkshire County Council. As a result of the joint working, on-going responsibility for the maintenance and electricity costs of the columns will transfer to NYCC.
Contribution towards Coast Protection and flood alleviation works	3,000	The Council no longer receives 100% grant funding to carry out coastal protection works. New Environment Agency funding regulations dictate that the level of funding offered directly correlates to the level of benefit received. The 2016 Financial Strategy proposed that a capped £3m Council contribution be established to progress essential Coast Protection and flood alleviation works. It was intended that the principle schemes that would be progressed with this funding would be Filey flood alleviation works and coastal protection

		and stabilisation works at Scarborough Spa and Whitby Piers. As the various scheme designs, costings and tendering processes have progressed it has become apparent that the proposed £3m capped contribution will not be sufficient to deliver the Whitby Pier stabilisation scheme and the contribution will need to be increased in future years. Works are currently ongoing to procure a specialist consultant, who will be employed to procure a contractor and manage the delivery of the Whitby Pier project. The initial part of these works is to project manage the construction tender stage and finalise the design in order to obtain a firm price for the scheme. These design and preliminary investigation aspects of the scheme are fully funded and will continue to be progressed with a view to commencing the stabilisation works in 2019/20. Although funding for the completion of the stabilisation works has not yet been identified the Council remains fully committed to the scheme and will class it as its highest funding priority in future year Financial Strategies.
STATUTORY REQUIREMENTS		
Disabled Facilities Grants	1,145	The Council has a statutory obligation to provide Disabled Facilities Grants in order to provide adaptations to the homes of people with disabilities. In 2017/18 DFG funding will be provided through the Better Care Fund, via allocation methods determined by NYCC. The 2017/18 budgets are based on 16/17 allocations and further details are awaited.
OTHER PRIORITY SCHEMES		
• Scarborough Town Centre Resurfacing	26	North Yorkshire County Council (NYCC) as highways authority are carrying out resurfacing works in Westborough and Newborough. NYCC proposed to lay black tarmac in the centre strip, with stone slabs on each side going to the building line. Following consultation with NYCC it was considered that colouring the tarmac in a buff colour would be more aesthetically pleasing. This change in proposal will lead to an increase in budget for NYCC so agreement has been reached for SBC to provide a contribution of £26k, which will result in a significantly improved appearance.
• South Cliff Gardens	90	Previous approval was granted (ref 16/49) to enable the submission of a stage 1 bid to the Heritage Lottery Fund for South Cliff gardens. This funding will provide a match funding contribution towards the stage 2 bid costs, which will result in the completion of a full scheme design and funding bid, and aim to attract external funding of up to £5m. Current allocations for environmental

		enhancements to the gardens exist within the Spa Coastal Defence scheme and these allocations could be used as match funding towards the further £5m funding application, allowing a scheme of works significantly in excess of the like for like reinstatement currently provided for.
• Peasholm de-silting works	251	Peasholm lake was last dredged in 2004 and at that time 4,950m3 of silt was removed. The dredging was triggered following an incident occurring with one of the warfare boats, which suggests that the trigger level is lower than this point. Current estimates suggest that there are currently 3,100m3 of silt in the lake. In addition to the dredging of the lake, it would be prudent to undertake works to the silt ponds in Manor Road Park and to the Woodlands Ravine Watercourse. These works would reduce the levels of silt reaching the Peasholm Lake and would hopefully extend the life of the dredged lake. Annual contributions are made into a specific reserve to fund the cyclical costs of dredging the lake and to date £171k is available. The estimated costs of the above scheme are £251k and therefore a one-off capital budget of £80k is required to fund the shortfall.
• Khyber Pass toilets	70	Members approved (ref 16/288) the freehold disposal of the existing public convenience building at Khyber Pass together with acceptance of a tender for the construction and internal fit out of a new, alternative public convenience facility. The capital budget required for the construction and fit out of the new facility is £250k to be partially funded from the anticipated capital receipt of £180k. A net funding requirement of £70k is therefore required in order to provide these new facilities.
• Royal Albert Drive demolition	30	Following disposal of the long leasehold interest in the site (ref 16/269) a further report to Members in January 2017 (ref 17/11) recommends the demolition of the retail and toilet facilities to provide a clear site. The provision of a cleared site will prove more attractive to potential developers. A budget is therefore required to cap off all related utility services and carryout the demolition including all related fees.
• Peasholm essential works	20	Works are required at Peasholm Park to replace the boating deck which is failing due to being a timber construction in a wet environment. Subject to funding being available, this work will be undertaken at the end of the 2017

		season. To ensure that the boat deck can continue to be operational during 2017, preseason works are required to replace some of the timbers and underlying beams. Without these works the boat deck may have to close which would result in a loss of income from Peasholm activities.
• Scarborough Business Park road adoption costs	50	Remedial works are required within the Scarborough Business Park in order to achieve a standard to which NYCC will formally adopt the road. Once formal adoption is agreed all future maintenance of the road will be the liability of NYCC and not SBC as currently. Remedial works are required to address damage to the base road caused through ground movements, together with general deterioration caused to the road and related signage through everyday vehicle usage.

Appendix B2

Section 106 Agreements

Section 106 of the Town and Country Planning Act 1990 allows Local Planning Authorities to impose restrictions or requirements on land, including the payment of monies towards infrastructure. Thus, where such infrastructure is required to make developments acceptable, a s106 obligation forms part of the planning permission. These obligations may take the form of s106 payments resulting in monies being received by the Council for investment in specific areas such as Affordable Housing, Education and Open Spaces. Under the terms of the s106 agreements infrastructure investments are required to be in a predetermined area of expenditure and normally in the vicinity of the development. This appendix concentrates on expenditure by the Borough Council, although it should be noted that the County Council and other bodies may be responsible for spending the s106 funds.

In order that the Council can best meet its overall corporate objectives it is important that it takes a co-ordinated and structured approach to allocate all available capital and revenue resources, including s106 monies, to areas of priority. This will be subject to s106 obligations which bind how monies can be spent. Sometimes the s106 identifies a specific project, while in other cases contributions may be pooled towards a specified project within parameters. The allocation and utilisation of s106 monies is incorporated within the Councils overall capital strategy to ensure the schemes have the same approval arrangements as other Council budgets.

A working group, consisting of officers from planning, finance, legal, housing and parks has been established and meets on a regular basis. The role of the group is to discuss potential schemes, monitor the progress of schemes and ensure that the Council continues to meet its legal obligations in respect of allocating s106 monies. An annual monitoring report to Cabinet is prepared by the Planning Service to highlight overall progress on s106 obligations, but this does not determine how monies should be spent.

Off-Site Agreements

The table in Appendix B2.1 sets out the off-site s106 monies currently due to or held by the Authority [£xxm] and details monies already committed to schemes [£xxm] and the residual amounts that have not yet been earmarked [£xx].

Some of the transport projects highlighted within appendix B2.1 are ones where the County Council, as the highways authority, would carry out the works and initially incur the costs in advance of a rebate funded through those monies held by the Council.

On Site Agreements

The Supplementary Planning Document relating to public open space/play equipment/sports facilities gives guidance to whether this provision should be provided on site or off site. On site provision is usually expected on larger residential schemes whereas for smaller developments on site provision may not be practical or provide the greatest community benefit. Depending on circumstances this may be secured by s106 or planning condition and private agreement.

The Authority anticipates a balance of [£xx] relating to on site provision as at 31 March 2017. Monies are pre designated to the development sites in which they relate, covering the costs of maintaining open space/play areas to an adequate standard. These maintenance monies are phased over a number of years (normally 10) following adoption of the site by the Council.

The Table in Appendix B2.1 identifies those monies currently held by and owed to the Authority in relation to both on-site and off-site Section 106 Planning Obligations.

APPENDIX B2.1

SECTION 106 MONIES HELD / DUE

To be completed

APPENDIX C

INVEST TO SAVE STRATEGY

Introduction

The Financial Strategy outlines restrictions on new borrowing. An exception to this will be made in the case of Invest to Save Schemes.

Invest to Save schemes are those where there is a capital cost, and associated borrowing costs arise, but the ongoing savings cover the associated borrowing costs. This results in both an improved revenue position (ie the benefits of the proposal exceed the borrowing costs) plus improved service provision through the capital investment.

All such proposals are considered in line with the Council's capital programme. The available funding for such proposals is in effect unlimited, providing the business case can be made.

All schemes will be assed for their viability, and contribution to corporate priorities.

The maximum period to repay the initial investment is 40 years.

The repayments will be expected to repay the capital outlay, interest and a provision to cover financial risk. In essence the Council incurs the borrowing, and associated repayment/interest costs are then fully covered through the revenue savings. An allowance for risk will usually be included in the assessment. Therefore, most schemes will need to demonstrate that they more than cover the borrowing costs, and an overall net saving results.

Interest

The rate of interest to be used in assessing whether the scheme meets the Invest to Save criteria will be the marginal cost of borrowing at the time of the decision. The interest rate will be fixed for the duration of the scheme.

All Invest to Save Schemes will be subject to a review report once the scheme has been implemented, to ensure the financial savings identified are achieved. Where savings are not demonstrated, the relevant service would be expected to find compensating savings. This rule ensures all services take a prudent view of such scheme, in the recognition that any risks/non achievement will ultimately fall back on them.

Information Requirements

To proceed with a request for Invest to Save, a capital bid must be made in line with the capital strategy process. This will include detailed financial appraisal. The appraisal will be subject to review from Finance.

In summary the following stages apply to ITS schemes

- Preparation of a Business Case and Risk Assessment (Service Unit Manager)
- Financial Appraisal (Corporate Finance Manager / Accountancy Manager)
- Report to Cabinet / Council (Director)

APPENDIX D

TREASURY MANAGEMENT STATEMENT, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY FOR 2017/2018

INTRODUCTION

1.1 Background

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (the Code) and CLG Investment Guidance to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested Strategy of the treasury management function for 2017/2018 is based upon the treasury officers’ views on interest rates, supplemented with market forecasts provided by the Council’s treasury adviser, Capita Asset Services (Capita).

The Council complies with the provision of s32 of the Local Government Finance Act 1992 to set a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A fundamental part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when it is required. Surplus funds are invested in counterparties or instruments commensurate with the Council’s risk appetite, providing adequate security and liquidity before considering investment return.

The second main function of treasury management is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer term cash flow planning to ensure that the Council can meets its capital expenditure; together with maximising any debt rescheduling opportunities that may arise to meet the Council’s risk and cost objectives.

Unless otherwise stated this report follows the convention used by HM Treasury in as much as years are always calendar years, not financial years i.e. quarter 1 (Q1) refers to the January to March quarter.

CIPFA Code of Practice

The Council adheres to the CIPFA Code of Practice on Treasury Management and the primary requirements of the Code are:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities. This is attached as Appendix E1.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council, or specified body, of an annual Treasury Management Strategy Statement for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

The Code also requires that Members, particularly those with responsibility for scrutiny of treasury management activities receive adequate training. A training session, which was well attended, was held in February 2016 and further training will be arranged as required.

PRUDENTIAL INDICATORS FOR 2017/2018 TO 2019/2020

Treasury Management is linked specifically to the Capital Strategy, through the setting of Prudential Indicators for capital investment and financing, including the level of borrowing to support capital schemes. The Prudential Indicators proposed for the next three financial years are detailed and explained within Appendix F.

The Council's treasury portfolio position as at 31 January 2017 comprised:

	Principal	Average Rate
Borrowings	£	%
Fixed Rate	11,922,925	3.3970
Total Debt	**11,922,925**	**3.3970**
Investments		
Internal	30,500,000	0.5902
Total Investments	**30,500,000**	**0.5902**

The level of investments fluctuate during the financial year as a result of cash flows and the above level is projected to reduce to around £17 million by 31 March 2017, before increasing during the following financial year.

ECONOMIC BACKGROUND

Global economy

Within the **Eurozone** the European Central Bank (ECB) extended its massive €1.1 trillion programme of quantitative easing, in terms of both size and duration. The programme is now due to end in December 2017, although the ECB has recognised that if the economic conditions are not favourable then this date could be extended again.

The Eurozone economic growth during the first three quarters of 2016 has been positive, and the forward indicators are that growth is likely to continue at moderate levels.

Central banks are stressing that national governments need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth.

There are also significant specific political and other risks within the Eurozone, namely:

Greece continues to be reluctant to implement key reforms required by the European Union to make the country more efficient and financially able, which may restrict the availability of further bail out funds.

Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. To prevent a third general election the party with the largest number of seats (137) has formed a government. This has the potential to be an unstable situation, particularly as the European Union is demanding the implementation of austerity cuts which will be extremely unpopular.

The under capitilisation of **Italian banks** and some **German banks** poses a major risk.

The outcome of the **Italian constitutional referedum** on reforming the Senate and reducing its powers resulted in the resignation of Prime Minister Renzi, and is likely to inhibit progress on the fundemental political and economic reform needed to address Italy's core problems.

There are also the forthcoming **Dutch general election**, **French presidential election** and the **German Federal election** to take place this calender year.

The US economy continued to grow, albeit weakly in H1 2016, with Q3 2016 signalling a rebound to strong growth. It was anticipated that the Federal Reserve would implement four rate increases during 2016, however downbeat news on the international scene and then the Brexit vote delayed the first of those 0.25% increases until December 2016. The Federal Reserve has indicated that it expects a further three rate increases of 0.25% during 2017 to deal with rising inflationery pressures.

The result of the Presidential election in November 2016 is expected to lead to a strengthening of US growth if Trump's election promises of a major increase in infrastructure expenditure is implemented.

China and Japan

Economic growth in Japan is still patchy and skirting with deflation despite signigficant monetary stimulus and fiscal action to promote consumer spending.

Economic growth in China has been slowing down, which in turn has dented economic growth in emerging countries dependent on exporting raw materials to China. The economy is further at risk from the build up of the level of credit compared to the size of GDP, an over supply of housing and surplus industrial capacity.

UK economy

The UK economic growth in 2013 (2.2%), 2014 (2.9%) and 2015 (1.8%) were some of the strongest growth rates of any G7 country; and growth is expected to have strengthened in 2016.

The referendum vote for Brexit in June 2016 delivered a fall in August's confidence indicators and business surveys, which were interpreted as pointing to an impending sharp economic slowdown. However, the September indicators showed an equally sharp recovery in confidence and business surveys and it is now generally expected that the economy will post reasonable growth figures for 2016 and also 2017.

The Monetary Policy Committee (MPC) at its August 2016 meeting, in order to counter the expected sharp slowdown, cut Bank Rate from 0.50% to 0.25%; renewed Quantative Easing and made available a £100 billion tranche of cheap borrowing for banks to lend money to businesses and individuals.

A key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for Consumer Price Index (CPI) of 2.0%. The Novembr 2016 Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7%, which is largely due to the effect of the sharp fall in the value of sterling since the referendum.

It is anticiated that Bank Rate will remain unchanged at 0.25% until Q2 2019, although the MPC has stated that Bank Rate could go either up or down depending on how the economic data evolves.

Looking Ahead

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK and such forecasts will be liable to amendment depending on how economic data and developments in financial markets transpire throughout the forthcoming year.

The overall balance of risk to economic recovery in the UK is currently to the downside, particularly in view of the uncertainty over the final terms of Brexit and the timetable for its implementation.

In addition to the above uncertainties, downside risks to current forecasts for UK gilt yields and Public Works Loan Board (PWLB) rates include:

- monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt;
- a resurgence of the Eurozone sovereign debt crisis, with Greece being as particular problem;
- weak capitalisation of some European banks;
- geo-political risks in Europe, the Middle East and Asia causing a significant increase in safe haven flows;
- UK economic growth is weaker than expected;
- weak growth or recession in the UK's main trading partners, the European Union and the US.

Upside risks to current forecasts for UK gilt yields and PWLB rates include:

- UK inflation rising to significantly higher levels than in the wider European Union and the US, causing an increase in the inflation premium in gilt yields;
- a rise in US Treasury yields as a result of Federal Reserve rate increases dragging UK gilt yields upwards;
- a downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

BORROWING STRATEGY

Local Authorities borrowing has an impact on public sector debt, therefore the Government is keen to capture future borrowing plans to assist their forecasts. For Local Authorities that voluntarily provide this information a certainty rate discount of 0.20% is made available for new PWLB loans. This Council provides the relevant information on future borrowing plans.

Detailed below are the expectations of the certainty borrowing rates for the PWLB, and are subject to variation if there are any unexpected shocks to financial and/or political systems. The PWLB is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury.

- The 50-year PWLB rate level is currently 2.68% and is expected to rise gradually to reach 3.20% by March 2020.

- The 25-year PWLB rate is expected to follow a similar path to the 50 year rate rising from 2.90% to 3.40% by March 2020.

- The 10-year PWLB rate is currently 2.29% and is expected to rise to reach 2.70% by March 2020.

- The 5-year PWLB rate is expected to rise gradually from 1.54% to reach 2.00% by March 2020.

In addition, to the above forecasts the Council's borrowing strategy will be based upon the following information:

- The world economic position is fragile and there may be positive or negative developments on the world political scene that could have a major impact on yields.

- Investment returns are likely to remain low during the 2017/2018 financial year, and beyond.

  - There will remain a 'cost of carry' – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

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

However, at some stage the level of General Fund Reserves and Balances will become depleted restricting the ability to borrow internally. This means that the short term savings to the General Fund by avoiding new long term borrowing must also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB rates are forecast to be higher.

The Council has an expansive capital programme, including amongst them the Leisure Village, Coast Protection and the Futurist and may need to borrow around £10.50 million to fund the programme. These schemes cannot be funded from cash balances therefore it is important to time and structure any new external borrowing to minimise the cost.

Municipal Bond Agency

The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative, and in competition to, the PWLB. It plans to issue bonds on the capital markets on behalf of participating local authorities. The Municipal Bonds Agency as it is referred to, is a company set up and owned by Local Government to provide access to Capital Finance at advantageous borrowing rates. The Company will also seek to facilitate inter-local authority lending and access to other financial instruments. Whilst the

Municipal Bonds Agency will be a more administratively complicated source of finance than the PWLB, it has the potential to directly or indirectly reduce borrowing costs for local authorities.

Borrowing authorities will be required to provide a joint and several liability to other participating local authority borrowers at each bond issuance, although the risks associated with this are likely to be very small given the statutory protections relating to local authority defaults. Any decision to borrow from the Municipal Bonds Agency will be subject to specific approval of the Council's Section 151 Officer (or appropriate substitute).

Policy on Borrowing in Advance of Need

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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

DEBT RESCHEDULING

The Council has two £4.00 million PWLB loans; a maturity loan with 13 years remaining, and an annuity loan with 38 years remaining. The PWLB permits Council's to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates.

The PWLB early redemption rates are generally 1.00 -1.15% lower than the equivalent standard new loan rate, therefore at present any rescheduling would result in a premium being payable. The rates payable on these two loans are still comparative to current new loan rates and given the Council is likely to require further long term borrowing rescheduling opportunities appear limited.

The Council also had a loan from Barclays Capital (Barclays) of £4.00 million on a six monthly callable LOBO (Lenders Option, Borrowers Option), maturing on 15 September 2043. If the lender exercised their option to vary the interest rate payable on this loan the Council would either have to accept the new terms offered, repay in full from cash balances or refinance with a new loan. A repayment on the call option being exercised is without penalty to the Council. Given the volatility in the financial markets it has not been possible to determine either the trigger or timing of the lender exercising their option.

Barclays formally approached the Council in May 2015 asking whether the Council wished to repay the loan prematurely; however the terms being offered were not financially favourable to the Council, thus the early redemption opportunity was not progressed.

In June 2016 Barclays advised the Council that they had decided to permanently waive their right under the lenders option of the LOBO to amend the applicable interest rate. The loan with Barclays effectively became a fixed rate loan at its current interest rate. Barclays estimate that such a move will

reduce the level of premium payable if the loan is prematurely redeemed in the future.
Any rescheduling undertaken will be reported to Cabinet as part of the Treasury Management Annual Outturn Report.

ANNUAL INVESTMENT STRATEGY

Investment Policy

The Annual Investment Strategy (AIS) is produced in accordance with the DCLG Guidance on Local Government Investments and the CIPFA Code of Practice. The Council aims to achieve the optimum return on its investments commensurate with the proper levels of capital security and liquidity. The Council's risk appetite is low reflecting the priority given to security of its investments.

Investment instruments that the Council may use for the prudent management of its treasury balances during the financial year are detailed in Appendix E2 under the heads of Specified and Non-Specified Investments. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the 'high credit quality' as determined by the Council and are not deemed capital expenditure investments under Statute. Non-specified investments are, effectively, everything else.

Creditworthiness Policy

The Council uses the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising the credit ratings from the three main rating agencies - Fitch, Moody's, and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands.

The Council will therefore use appropriately credit rated counterparties within the following durational bands: -

- Yellow 5 years (for AAA rated government debt only)
- Dark Pink 5 years for Enhanced Money Market Funds with a credit score of 1.25

- Light Pink 5 years for Enhanced Money Market Funds with a credit score of 1.50
- Purple 2 years
- Blue 1 year (only applies to full/semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour do not use

The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings. The rating criteria stated within this Strategy reflect the ratings issued by Fitch.

Although all credit ratings are monitored weekly the Council is alerted to changes to ratings of all three agencies throughout the week.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- If a counterparty or investment scheme is upgraded so that it meets the Council's minimum criteria, it will be included on the lending list.
- In addition to the use of credit ratings the Council is advised of information in movements in CDSs against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will use market information and data, information on any external support for banks to assist its decision making process.

Authorised Institutions

The Council will invest with Bank of England Authorised Institutions with a minimum credit rating of A (or equivalent) long-term and F1 (or equivalent) short term at the time of dealing.

During the financial crisis the UK Government stepped in to support both the Lloyds Group (Lloyds) and Royal Bank of Scotland (RBS), in essence taking part ownership of the banks. Whilst nationalised banks, whether full or partial, have their own credit ratings they are also recipients of an F1+ short term rating as they effectively take on the creditworthiness of the UK Government itself.

The UK Government has continued the sell-off of the Lloyds shares, reducing their ownership from 43% to less than 5%, with the prospect of the bank being returned to private ownership around May 2017. The consideration of investing with Lloyds will now be based on their institutional credit rating alone.

The UK Government currently owns around 73% of RBS having commenced a programme of returning ownership to private investors. However, this may not be a quick de-investment and whilst the UK Government holds over 25% of shares the RBS group will continue to benefit from the Government's short term rating of F1+. The RBS credit rating is presently BBB+ long term, thus beneath the Council's minimum criteria; however RBS should still continue to be used for investments as it benefits from the Government's rating.

The maximum lending limit for each of these Authorised Institutions is to remain at £7 million, save for Royal Bank of Scotland/National Westminster Bank which are part of the same parent institution and will have a collective limit of £15 million whilst the UK government owns more than 25%.

The ownership of financial institutions is complex and so that the Council is not over-exposed to 'ownership risk' a group investment limit of £10 million will apply. This provides an extra layer of security to minimise the investment exposure. However, this group limit will be £15 million where the UK Government holds greater than 25% of the ownership, however the additional £5 million group limit will be held in liquid investments that can be withdrawn should the UK Government ownership reduce beneath the 25% threshold.

A Group Investment limit of £10 million; and £15 million where the UK Government owns more than 25% will remain.

Building Societies

A large number of Building Societies do not have formal credit ratings; they are assessed on the total asset value of the organisation, which is not considered an appropriate measure of credit risk.

Therefore, the Council will only invest with building societies that have a minimum credit rating of A- long term and F1 short term. This in itself is no guarantee against an institution failing but it does provide a measure of their current and on-going viability.

Of those that have a credit rating the Council recognises there is a difference in strength between them, and therefore will seek to apply a tiered maximum level of investment as follows:

<u>Tier 1</u>
The Nationwide Building Society (Nationwide) is the largest building society in the World, and throughout the financial crisis has been recognised by the UK Government as being systemic to the UK economy and has consequently benefited from the implied Government support. The Nationwide also acquired the Cheshire, Derbyshire and Dunfermline Building Societies when they were on the verge of collapse.
The Council therefore will treat the Nationwide on a parallel with Authorised Institutions, applying a £7 million maximum lending limit.

This is the same as in the 2016/2017 Strategy.

<u>Tier 2</u>
For other Building Societies with a minimum A (Long Term) and F1 (Short Term) credit rating a maximum lending limit of £5 million will apply.

This is the same as in the 2016/2017 Strategy.

<u>Tier 3</u>

For Building Societies with an A- (LT) and F1 (ST) credit rating a maximum lending limit of £2.5 million will apply. This Tier provides for a wider counterparty list whilst controlling the financial exposure with the lower maximum limit.

This is the same as in the 2016/2017 Strategy.

Local Authorities

Local Authorities do not generally have a credit rating assigned; however, this does not imply they are not creditworthy organisations. There is a clear legal situation pertaining to straightforward cash lending for English and Welsh local authorities where Section 13 (3) of the Local Government Act 2003 states that:-

‘’All money borrowed by a Local Authority, together with any interest on the money borrowed, shall be charged indifferently on all the revenues of the authority’’.

As Local Authorities are guaranteed by statute their maximum lending limit remains at £7 million per organisation, in accordance with Authorised Institutions.

Other Public Sector Bodies

Although neither of these bodies were used for investment purposes during the 2016/2017 financial year it is proposed that **Police Authorities** and **Fire Authorities** continue to be included within the Council’s investment counterparty list. Both of these functions are defined as Local Authority bodies under Sections 23 and 24 of the Local Government Act 2003. In addition, the Police Act 1996 has been updated to reflect the new era of Police and Crime Commissioners (PCC’s), but links back are provided by the Police Reform and Social Responsibility Act 2011 to ensure PCC’s still fall within the technical definition of a Local Authority.

Any investments should be limited up to 6 months in duration and the maximum lending limit at £2 million per institution, as per the 2016/2017 Strategy.

Scottish Local Authorities borrowing powers are now governed by The Local Authority (Capital Finance and Auditing) (Scotland) Regulations 2016; which brings this function into line with the Local Government Act 2003. This means that all money borrowed must be secured on all the revenues of that Authority. The investment lending limit will continue to be £2 million per institution, to allow Officers to assess the level of demand from Scottish Authorities.

Debt Management Office

The Debt Management Office balances the UK Government's books and as part of that remit will accept fixed term investments for a period up to 6 months from Local Authorities. Whilst this provides the Council with enhanced security of its investments the interest rate payable is very low (the risk/reward trade off).

The existing investment limit of £30 million will remain for the 2017/2018 Strategy.

Foreign Banks/Country limits

On credit grounds alone, there is no reason why a highly credit-rated bank with non-UK origins operating in the UK should be discriminated against vis-à-vis its UK counterparty. However, the Icelandic bank situation raised the issue of a sovereign states' propensity and ability to support a bank and/or banking system. The Icelandic government had the propensity to support their banks but unfortunately not the financial ability to do so.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This will also be the consideration where a country has given a blanket (explicit) guarantee on all deposits.

In addition to the sovereign rating, the individual financial institution should have a minimum AA- (LT) and F1+ (ST). This is a higher rating requirement than for UK counterparties, but is considered a reasonable enhancement in order to provide greater reassurance to their stability.

The list of countries that qualify using these credit criteria and have banks operating in sterling markets at the date of this report are detailed below:

AAA rated	
• Australia	• Netherland
• Canada	• Singapore
• Denmark	• Sweden
• Germany	• Switzerland

AA+ rated	
• Finland	• USA
• Hong Kong	

This list will be added to or deducted from by Finance Officers should ratings change in accordance with this policy.

The UK sovereign rating is AA from Fitch and Standard and Poors; and AA+ from Moodys. As previously stated this Strategy reflects the ratings from Fitch, which place the UK sovereign rating as AA. It is recommended that the Council should continue to invest within UK based institutions, including the central government, even if the sovereign rating is downgraded below the minimum AA.

A definition of the long and short term ratings used within this report is detailed in Appendix E3.

TEMPORARY INVESTMENTS STRATEGY

All of the Council's investments are currently managed in-house, and this approach will continue for the duration of this Strategy.

The Council's funds are mainly cash-flow derived, with a small element of core balance available for longer term investments. The core balance has been reduced over the last couple of years, or so, through funding capital expenditure rather than take new borrowing, although project specific borrowing was taken for the Waterpark and Leisure Village. This general approach has reduced the level of credit risk exposure, and generated short term savings.

The Bank Rate is forecast to remain at 0.25% until Q2 2019 and not to rise above 0.75% by Q1 2020. Bank Rate forecasts for financial year ends (March) are as follows:

- 2017: 0.25%
- 2018: 0.25%
- 2019: 0.25%
- 2020: 0.50%

The overall balance of risks to these forecasts is to the downside in view of the uncertainty over the final terms of Brexit and if growth expectations disappoint the commencement of Bank Rate increases could be pushed back. However, there is also upside risk if the pace of growth quickens or forecasts for increases in inflation rise.

The Council will avoid locking into longer-term deals while investment rates are at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile. Cash-flow generated balances will continue to be placed in business reserve accounts and short-dated deposits (upto 6 months) to benefit from the compounding of interest.

Officers will also explore the selection of Money Market Funds (MMF) for short dated investments. MMF's are an accepted investment instrument for Local Authorities, and have previously been included within the Council's Treasury Strategy. Officers will present a report to the Audit Committee prior to this instrument being used so that the associated risks are properly explained.

For the 2017/2018 financial year the Council should budget for an investment return of 0.35%. This rate of return may vary if the Bank Rate does not increase as forecast.

END OF YEAR INVESTMENT REPORT

In accordance with the CIPFA Code of Practice the investment activities for 2017/2018 will be reported to Cabinet as part of the Treasury Management Annual Outturn Report, no later than 30 September following the end of the financial year.

INDICATIVE COUNTERPARTY SCHEDULE BASED ON UK INSTITUTIONS

Country	Sovereign Rating	Counterparty	Credit Rating	Limit
UK	AA+	Barclays Bank	A/F1	£7m
		HSBC Bank	AA-/F1+	£7m
		Goldman Sachs	A/F1	£7m
		Santander UK Cater Allen	A/F1 Santander Parent	£7m £3m (£10m group)
		Standard Charter	A+/F1	£7m
		UBS Ltd	A/F1	£7m
		Lloyds Banking Bank of Scotland	A+/F1 A+/F1	£7m (£10m group)
		Royal Bank of Scotland National Westminster Bank	BBB+/F2 BBB+/F2	£15m collective limit *
		Debt Management Office	AA+/F1+ (UK Govt)	£30m
		Individual Local Authorities (England and Wales)	By Statute	£7m
		Police Authorities	By Statute	£2m
		Fire Authorities	By Statute	£2m
		Scottish Local Authorities	By Statute	£2m
		Nationwide Building Society	A/F1	£7m
		Coventry Building Society	A/F1	£5m
		Leeds Building Society	A-/F1	£2.5m
		Yorkshire Building Society	A-/F1	£2.5m
		Skipton Building Society	A-/F1	£2.5m

* Only £15m group limit whilst nationalised bank.

APPENDIX D1

TREASURY MANAGEMENT POLICY STATEMENT

The Council defines its treasury management activities as: "The management of the 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".

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

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

CAPITAL FINANCING

Any external borrowing, if required, will in the foreseeable future be met from the Public Works Loans Board after having regard to both current interest rate levels and anticipated rate fluctuations.

However, there are alternate sources of finance available such as long-term loan(s) from the Money Market or through the newly formed Municipal Bonds Agency.

Officers will give due consideration to the various options in determining the most advantageous terms in accordance with the borrowing strategy.

INVESTMENT OF SURPLUS MONIES

The Council's practice for the investment of surplus funds is limited to the following:-

- Institutions supported by the UK government and thus its sovereign rating.
- For any bank outside the UK, the Country of Origin should have a minimum Sovereign rating of AA+, together with an individual rating of AA- (LT) and F1+ (ST) at the time of dealing.
- Institutions with an unconditional guarantee from a minimum AA+ rated sovereign country at the time of dealing.
- Bank of England Authorised Institutions with a minimum credit rating of F1 (or equivalent) short term and A (or equivalent) long term at the time of dealing from any one of the major credit rating agencies.

- The wholly owned subsidiaries of the UK banks (subject to the parent meeting the minimum credit criteria and providing a statement of support).
- Building Societies with a minimum credit rating of A- (or equivalent) long term and F1 (or equivalent) short term at the time of dealing.
- Nationalised Industries, including nationalised banks (part/fully), and other Public Corporations.
- UK Central Government and UK Local Authorities, including Police and Fire Authorities.
- Other Institutions as approved through the Annual Investment Strategy, in accordance with the Local Government Investment Regulations.

The Strategy which has been implemented over many years is to maximise the return on the investment of funds whilst having regard to the security of investment; thus achieving optimum performance commensurate with the level of risk. Investments are arranged in line with the Annual Investment Strategy under the heads of Specified and Non-Specified Investments, which details the maximum maturity duration for each instrument, bearing in mind future cash flow requirements and anticipated interest fluctuations. It is stressed that whilst maximising income is the aim, the first priority is the preservation of the capital value invested.

The ownership of financial institutions is complex and so that the Council is not over-exposed to 'ownership risk' a maximum Group investment limit is in place. This provides an extra layer of security to minimise the investment exposure.

Having regard to the above criteria it follows that a spread of investments is required to minimise the counterparty risk and therefore a maximum investment at any one time with any one of the Institutions, or Group, set out above is recommended. It is recommended that the maximum applied to each of the institutions is as detailed beneath:

Authorised Institutions as above	£7.0m
UK Government guaranteed Institutions	£15.0m
UK banks wholly owned subsidiaries	£5.0m
Nationwide Building Society	£7.0m
Building Societies with A (LT) and F1 (ST)	£5.0m
Building Societies with A- (LT) and F1 (ST)	£2.5m
Group investment limit	£10.0m
Group limit for nationalised banks	£15.0m
Nationalised Industries and other Public Corporations	£5.0m
Individual Local Authorities	£7.0m
Individual Police, Fire and Scottish Authorities	£2.0m
Central Government – Debt Management Account	£30.0m

The following matters are also brought to the Council's attention:

A Policy on External Service Providers

1) Fund Manager

The Council will engage the services of professional external Fund Managers, where appropriate, in order to maximise its lending and borrowing operations whilst it is felt that there is added value of such appointments. Contracts will be awarded in accordance with the Council's Constitution. The Fund Manager's performance would be continually monitored throughout the contract period to ensure compliance with the risk management controls incorporated into the agreement. The Council does not currently engage the services of a Fund Manager.

2) Treasury Management Advisers

The Council engages the services of professional external treasury management advisers, where appropriate, in order to access specialist skills and resources. Capita Asset Services are currently appointed in this role, with their contract expiring on 31 March 2017. In order to explore and potentially engage in a collaborative procurement exercise with other North Yorkshire District Councils the contract with Capita has been extended until 30 June 2017.

The Council recognises that it is responsible for treasury management decisions at all times and will ensure that undue reliance is not placed upon our external service providers.

B Policy on Delegation

All executive decisions on borrowing, investment and financing shall be delegated to the Director (NE) (Section 151 Officer) and through him to the Finance Officers who are required to act in accordance with CIPFA's Code for Treasury Management in Public Services, and other relevant regulations.

The Section 151 Officer's treasury management role is:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers as appropriate.

C Treasury Management Practices

The Director (NE) will maintain Treasury Management Practices (TMPs), which set out the manner in which the Council will seek to achieve and control its treasury management policies, objectives and activities. The TMPs are working documents which assist in the identification, monitoring and control of the risk associated with treasury management activities.

D Review and Reporting Arrangements

The system and procedures for Treasury Management will be assessed and reviewed on a regular basis. Any significant amendment will be reported to Cabinet or the relevant Committee as appropriate.

APPENDIX D2

LOCAL GOVERNMENT INVESTMENTS (England)
SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated, with maturities upto a maximum of 1 year, meeting the minimum 'high' credit criteria where applicable.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF)	No	Yes	UK Sovereign rating.	No	In-house	6 months
Term deposits with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) or similar legislation with maturities up to 1 year.	No	Yes	High security although most local authorities are not credit rated.	No	In-house and by external fund managers	1 year
Term deposits with banks and building societies nationalised (part/fully) by high credit rated sovereign countries with maturities upto 1 year. This includes forward deals where negotiated period plus period of deposit is less than 1 year.	No	Yes	Minimum of AA+ rated sovereign rating for non-UK countries. UK sovereign rating for UK counterparties	No	In-house and by external fund managers	1 year
Term deposits with credit-rated banks with maturities up to 1 year, including forward deals.	No	Yes	A long term F1 short term	No	In-house and by external fund managers	1 year

Term deposits with credit-rated building societies with maturities up to 1 year, including forward deals.	No	Yes	A- long term F1 short term	No	In-house and by external fund managers	1 year
Term deposits with banks and building societies operating with a Government guarantee (explicit) on ALL deposits by high credit rated countries.	No	Yes	Minimum of AA+ rated sovereign rating for non-UK countries. UK sovereign rating for UK counterparties	No	In-house and by fund managers	1 year
Term deposits with banks and building societies operating with UK Government support to the banking sector (implicit guarantee).	No	Yes	UK sovereign rating	No	In-house and by fund managers	1 year
Money Market Funds	No	Yes	AAA rated	No	In-house and by fund managers	1 year

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

Note : The maximum percentage limit for each investment is based on the aggregate sum managed in-house and through external fund managers

1 Maturities of ANY period

Investment	Share/ Loan Capital ?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure ?	Circumstance of use	Max % of overall investment portfolio	Maximum period
Deposits with unrated deposit takers with unconditional financial guarantee from HMG or credit-rated parent institution.	No	Yes, but only if maturity is 1 year or less	Parent must be rated minimum A long term and F1 short term. Minimum of AA+sovereign rating or UK sovereign rating.	No	In-house	50	5 years, dependant on credit rating of parent or sovereign
Fixed term deposits with variable rate and variable maturities (structured deposits).	No	Yes, but only if maturity is 1 year or less	A long term F1 short term	No	In-house and external fund managers	25	5 years
Certificates of deposit issued by banks and building societies covered by a specific UK Government (explicit) guarantee.	No	Yes, but only if maturity is 1 year or less	UK Sovereign rating A long term F1 short term	No	In-house and external fund managers	50	5 years

Investment	Share/ Loan Capital ?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure ?	Circumstance of use	Max % of overall investment portfolio	Maximum period
Certificates of deposit issued by banks and building societies covered by the UK Government banking support package (implicit) guarantee.	No	Yes, but only if maturity is 1 year or less	UK Sovereign rating A long term F1 short term	No	In-house and external fund managers	50	5 years
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) NOT covered by UK Government guarantee support package (implicit guarantee) *Custodial arrangement required prior to purchase*	No	Yes, but only if maturity is 1 year or less	A long term F1 short term	No	To be used by fund managers; to be used in-house after consultation/ advice from treasury consultant	50	5 years
Commercial paper issuance covered by a specific UK government (explicit) guarantee and issued by banks covered by the UK bank support package. Custodial arrangement required	No	Yes – generally have a maximum life of 9 months.	UK sovereign rating F1+ short term	No	In-house and by external fund managers (subject to the guidelines and parameters agreed with them)	20	1 year
Commercial paper issuance covered by UK banks covered by UK government (implicit) guarantee. Custodial arrangement required	No	Yes – generally have a maximum life of 9 months.	UK sovereign rating F1+ short term	No	In-house and by external fund managers (subject to the guidelines and parameters agreed with them)	20	1 year

Investment	Share/ Loan Capital ?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure ?	Circumstance of use	Max % of overall investment portfolio	Maximum period
Treasury bills [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value] Custodial arrangement required prior to purchase	No	Yes	UK sovereign rating.	No	In-house and external fund managers subject to the guidelines and parameters agreed with them	25	1 year
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (refers solely to GEFCO – Guaranteed Export Finance Corporation) Any maturity Custodial arrangement required prior to purchase	No	Yes, but only if maturity is 1 year or less	UK sovereign rating.	No	(1) Buy and hold to maturity: to be used in-house after cons-ultation / advice from treasury consultant (2) for trading: by external cash fund manager(s) only subject to the guide-lines and parameters agreed with them	50	10 years
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) any maturity Custodial arrangement required prior to purchase	No	Yes, but only if maturity is 1 year or less	AAA or UK sovereign rating.	No	(1) Buy and hold to maturity: to be used in-house after cons-ultation / advice from treasury consultant (2) for trading: by external cash fund manager(s) only subject to the guide-lines and parameters agreed with them	50	10 years

Investment	Share/ Loan Capital ?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure ?	Circumstance of use	Max % of overall investment portfolio	Maximum period
UK government gilts *Custodial arrangement required prior to purchase*	No	Yes – but can be up to 10 years.	UK sovereign rating	No	(1) Buy and hold to maturity : to be used in-house after cons-ultation / advice from treasury consultants (2) for trading : by external cash fund manager(s) only subject to the guide-lines and parameters agreed with them	50	10 years
Floating Rate Notes (FRNs) *[Bonds (i.e. debt instruments) with a coupon whose rate varies in line with a market rate of interest and is generally re-set every 3 month]* *Custodial arrangement required prior to purchase*	Yes	Yes	Yes – varied	Yes	For trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	20	5 years
Corporate bonds issuance covered by UK government (implicit) guarantee and issued by banks covered by the UK bank support package.	Yes	Yes	UK sovereign rating YES-varied** Suggested minimum long-term rating : AA- : for bonds with maturities up to 2 years AA : for bonds with maturities up to 10 years	Yes	For trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	20	10 years

Investment	**Share/ Loan Capital ?**	**Repayable/ Redeemable within 12 months?**	**Security / 'High' Credit Rating criteria**	**Capital Expenditure ?**	**Circumstance of use**	**Max % of overall investment portfolio**	**Maximum period**
Corporate bonds other	Yes	Yes	YES-varied** Suggested minimum long-term rating : AA- : for bonds with maturities up to 2 years AA : for bonds with maturities up to 10 years	Yes	For trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	20	10 years
Sovereign bond issues (other than UK government): any maturity *Custodial arrangement required prior to purchase*	No	Yes but only if maturity is 1 year or less.	Minimum AAA sovereign rating	No	(1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector (2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them	20	10 years

Investment	Share/ Loan Capital ?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure ?	Circumstance of use	Max % of overall investment portfolio	Maximum period
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) e.g. • **Government Liquidity Funds** • **Money Market Funds** • **Enhanced Cash Funds** • **Bond Funds** • **Gilt Funds**			Minimum A long term F1 short term but for certain investments should be AAA rated	No, ***(ensure it is not a body corporate by virtue of its set up structure)***	In-house and external fund manager.	50	*the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements*

2 Maturities in Excess of 1 Year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure ?	Circumstance of use	Max % of overall investments	Maximum period
Term Deposits with UK Local Authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) or similar legislation with maturities in excess of 1 year	No	No	High security although most local authorities are not credit rated	No	In-house and by external fund manager	100	5 years
Term deposits with banks and building societies with maturities greater than 1 year	No	No	A long term F1 short term	No	in-house and fund managers	50	5 years
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	No	No	A long term F1 short term	No	By fund managers; and in-house.	50	5 years
Term deposits with credit rated banks and building societies with unconditional guarantee from a Sovereign government.	No	No	Minimum of AA+ sovereign rating or UK Sovereign rating. A long term F1 short term	No	In-house	20	5 years

Appendix D3

Long Term Credit Rating Definition

There are many grades of long term ratings, below are the Investment Grades only. These ratings generally cover maturities up to five years and thus is an assessment of the ongoing stability of the sovereign/institution's prospective financial condition.

Investment Grade	Definition
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

Short Term Ratings Definition

A short-term rating is based on the liquidity profile of the rated entity and relates to the ongoing capacity to meet financial obligations with a relatively short time horizon generally less than 13 months. Below are the top three ratings.

Short term rating	Current Definition
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.

ANNUAL STATEMENT ON MINIMUM REVENUE PROVISION (MRP) IN RESPECT OF CAPITAL EXPENDITURE FINANCED BY BORROWING

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement) through an annual Minimum Revenue Provision (MRP).

The Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2008 (the Regulations) recommend that an annual statement on the policy to be adopted is submitted to Full Council for approval.

A variety of options are provided to Councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP policy.

POLICY

Expenditure will, under delegated powers, be subject to MRP under the Asset Life Method*,* which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

FINANCE LEASES

Upon the commencement of the lease term finance leases are recognised as assets and liabilities in the balance sheet. These are subsequently measured at the lower of fair value or the net present value of the future minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

The MRP requirement would be regarded as met by a charge equal to the element of the charge that goes to write down the balance sheet liability.

Asset Life Method

MRP is determined by reference to the life of an asset that can be identified as financed wholly or partly by borrowing. There are two usual methods by which this can be achieved:

(a) Equal instalment method

An equal amount is charged each year based on the asset expenditure financed by borrowing and the life of the asset on which the expenditure is incurred.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

APPENDIX E

PRUDENTIAL INDICATORS

Under the Prudential Regime, which has operated since April 2004, the Council has the responsibility to demonstrate that its capital investment programme is affordable, prudent and sustainable. The Prudential Code requires that this is done by calculating specific affordability indicators for capital expenditure and financing and by setting borrowing limits and indicators for treasury management.

Affordability Indicators

The indicators of affordability address the revenue implications of the Council's capital investment programme. These indicators, recommended for approval, are set out in Bold in the following table.

	2015/16 Actual £000s	2016/17 Estimate £000s	2017/18 Estimate £000s	2018/19 Estimate £000s
Opening Capital Finance Requirement	14,282	14,783	21,361	24,000
a) Capital Expenditure	**7,043**	**34,380**	**23,022**	**13,187**
Sources of finance:				
Grants/other contributions	(1,394)	(13,993)	(13,414)	(9,415)
Capital receipts & reserves set aside	(4,579)	(12,968)	(3,252)	(3,771)
Net Repayment of Borrowing			(2,900)	
Other transactions				
Minimum Revenue Provision	(569)	(841)	(817)	(828)
b) Net Borrowing Indicator and Closing Capital Finance Requirement	**14,783**	**21,361**	**24,000**	**23,173**
c) Ratio of Financing Cost to Net Revenue Stream	**4.33%**	**6.37%**	**6.92%**	**7.24%**
d) Incremental impact on the Council Tax		**£0.03**	**£0.02**	**£0.00**
e) Gross Debt and the Capital Financing Requirement		**66.81%**	**81.21%**	**81.20%**
f) Gross and Net Debt			**9.20%**	**19.46%**

a) Capital Expenditure Indicator

The total amount of capital expenditure is the initial driver behind the cost of the capital programme for Council Tax payers. This is therefore given as the first indicator.

The total cost falling on the Council Tax Payer is dependent on capital expenditure after taking account of grants and contributions. The Capital Expenditure Indicator does not therefore by itself, indicate the cost of the Capital Programme to Council Tax payers either in one year or over the course of the Financial Strategy.

b) Net Borrowing and Capital Financing Requirement Indicators

Capital expenditure in excess of the financing provided by external grants or the set-aside of reserves or capital receipts, increases the underlying need to borrow. This underlying need is shown by the indicator, the Capital Financing Requirement (CFR). The CFR in turn determines the minimum provision required in the Revenue Budget for repayment of borrowing.

The table below details the Unsupported Prudential Borrowing included within the prudential indicators;

Scheme	**2015/16 £k**	**2016/17 £k**	**2017/18 £k**
Leisure Village – wet construction	938	3,849	783
Leisure Village – dry construction in lieu of Filey Rd sale)	-	2,900	-
Borrowing included in the 2015/16 budget	-	213	2,587
Borrowing included in the 2016/17 budget proposals	-	314	2,986
Other previously approved schemes	132	143	-
Total	**1,070**	**7,419**	**6,356**

c) Ratio of Financing Cost to Net Revenue Stream Indicator

The costs of borrowing and also the interest received from investments, is largely determined by decisions on past and future capital investment. The proportion of revenue grant and council tax that is required to cover this net cost is measured by the Prudential Indicator: Ratio of Financing Costs to Net Revenue Stream.

d) Incremental impact on the Council Tax Indicator

The Council's capital strategy supports capital investment by identifying matching financing from reserves and capital receipts. The incremental effect of this updated strategy compared with the resources previously identified is insignificant. The Incremental Impact on the Council Tax Indicator which measures this in terms of the resulting additional cost each year to Council Tax (Band D) therefore shows a negligible decrease over the term.

e) Gross Debt and the Capital Financing Requirement

The Capital Strategy and the prudential indicators to which it adheres are based on a principle of prudence. This is measured through the: Gross Debt and Capital Financing Requirement. The purpose is to ensure that over the medium term debt external borrowing will only be used for capital purposes. This is monitored through ensuring that external borrowing does not, except in the short term, exceed the total capital financing requirement in the proceeding year, plus any additions to the capital financing requirement for the current and next two financial years.

f) Gross and Net Debt

The Gross and Net Debt indicator is used to highlight where the authority may be borrowing in advance of need. This ratio is expressed through the amount of net debt (i.e. borrowings less cash investments) as a percentage of gross debt (borrowings only). This ratio is projected to materialise within the 2017/18 financial year due to the Council utilising cash balances to fund capital expenditure in the short term.

Borrowing Limits

The level of external debt is determined with reference to the net borrowing indicator (as above), but also by treasury and operational management decisions. Borrowing Limits are set as a means of reviewing and controlling the amount of borrowing that can be afforded at any time.

The Council is required to set an authorised limit, which is a self-imposed maximum borrowing limit, and an operational boundary, which is an indicator to focus day-to-day treasury management and ensure that the authorised limit is not breached. The Authorised Limit reflects a level of borrowing which, while not desired, could be afforded but might not be sustainable. The operational boundary is a key management tool for in-year monitoring. A separate limit is set for 'other long term liabilities' to recognise the other alternatives to borrowing, such as finance leases, that, although not currently used, will likely be used to finance capital expenditure in future. The recommended authorised limit and operational boundary proposed for the next three years is as follows:

Operational Boundary	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate
Debt	£15 million	£24 million	£24 million	£24 million
Other long term liabilities				
Total	£15 million	£24 million	£26 million	£26 million

Authorised Boundary	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate
Debt	£20 million	£30 million	£30 million	£30 million
Other long term liabilities				
Total	£20 million	£30 million	£30 million	£30 million

Treasury Management Indicators

The Treasury Management Indicators are set as a means of aiding a prudent borrowing and investment strategy. The predominant indicator is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has adopted the Code and complies with its requirements. The Prudential Code further requires three specific indicators to be calculated each year to set limits to the exposure to risk of additional costs that might arise from treasury management. These indicators are outlined below.

Upper limits for interest exposure from use of fixed and variable interest rates

The Council's borrowing is all at fixed rate. The risk from exposure to variable interest rates is therefore currently limited to investments and any short term cash flow borrowing that may be necessary. Fixed rate investments reduce uncertainty but the flexibility arising from variable rate investments may be advantageous and necessary for at least part of the investment portfolio. The proposed upper limits for exposure calculated with respect to projected interest receivable are:

Upper Limits for interest rate exposure for 2017/18 –2019/20	%
Upper limit - fixed rate	100
Upper limit - variable rate	50

Upper and lower limits for the maturity structure of the Council's debt for the forthcoming year

The risk associated with the maturity structure of debt is dependent on whether that structure might require an Authority to refinance debt at a time of volatile interest rates. The Council has three fixed rate long term loans, which are presently unlikely to be prematurely redeemed; and have a minimum of 13 years until maturity.

In addition, the Council is considering a number of capital projects which may require external borrowing. To provide the Council flexibility in structuring any borrowing, and not to limit options, the following upper and lower limits for maturity structure are proposed.

Maturity structure of debt for forthcoming year (2017/2018 to 2019/2020)	**Upper Limit**	**Lower Limit**
Under 12 months	75%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Upper Limit for Total Principal Sums Invested Over 364 Days

The risk involved in being forced to realise an investment before maturity increases with the investment term. The limits are set with regard to the Council's liquidity requirements and to reduce the need for early redemption of an investment, and are based on the availability of funds. Whilst the Council does not presently have any sums invested over 364 days, it is proposed to retain the present upper limit of £3.0 million to give some investment flexibility whilst limiting risk exposure. This headroom is unlikely to be used in 2016/17.

Maximum principal sums invested over 364 days				
	2016/2017	2017/2018	2018/2019	2019/2020
Principal sum	£nil	£3 million	£3 million	£3 million

APPENDIX F

RESERVES AND BALANCES

INTRODUCTION

The Council's reserves and balances underpin the sustainability of both the revenue and capital financial plans. This policy sets out the guidance on what is considered to be best practice for the level and utilisation of reserves and balances as well as the governance arrangements surrounding the approval of contributions to and from reserves.

To aid the understanding of the many Council reserves they have been summarised into the following three categories:

(a) General Fund Balance
(b) Corporate Reserves
(c) Operational Reserves and Balances

GUIDANCE ON LOCAL AUTHORITY RESERVES AND BALANCES

When calculating their budget requirement the Local Government Finance Act 1992 requires Councils to have regard to their level of capital and revenue reserves needed for meeting estimated future expenditure.

The Council's Section 151 Officer is required to advise the Council on the level of reserves it should hold in order to ensure a sound financial standing, and also ensure that clear protocols exist for their establishment and use. Clearly a well-managed Council, with a prudent approach to budgeting, should be able to operate with a relatively low level of General reserve. The external auditors are in turn required to review the level of reserves and financial performance over a period of time. It is, however, not the responsibility of the auditor to prescribe an optimum or minimum level of reserves.

The introduction of the Prudential Code for Capital Finance (The Code) reinforces the safeguards for financial planning. The Code emphasises the requirement to consider affordability when making decisions about the Council's future capital programme. The development of five-year revenue forecasts and long term capital programme focus greater attention on the levels and application of the Council's Balances and Reserves.

OPTIMUM RANGE OF RESERVE BALANCES

In order to assess the adequacy of unallocated reserves the Council must take into account the strategic, operational and financial risks that it will face in both the long and short term.

In recent years the Council has set a high-risk budget, characterised by the need to achieve a high levels of savings, central government funding cuts and budgets that include large levels of seasonal income that are heavily weather dependant. A reasonably high level of reserves was preserved to mitigate these risks.

The development of the Financial Strategy and embedding of the Medium Term Financial Plan and Risk Strategy allows the Council to be less cautious when prescribing its minimum level of retained balances however future year budgets will continue to be particularly high risk due to the impact of the current economic conditions, cuts in external funding, increased budgetary risks associated with the localisation of business rate income, pressure on capital budgets and the high levels of savings needed to balance the budgets.

The criteria for corporate reserves will remain unchanged and are set out below:

Table F1 – Criteria for Optimum Reserve Levels

	RESERVE	OPTIMUM RANGE
a)	**General Fund Balance**	The balance to be maintained within the range of £2.0m to £3.0m.
b)	**Corporate Reserves:**	
	Capital Contingency Reserve	The balance to be maintained within the range of £0.5m to £1.5m
	Capital Development Reserve	The approved expenditure from the fund will be match its resources over a 10 year planned period
	Insurance Reserve	A minimum balance to be maintained in the medium term of £1.350m
	Pension Reserve	The balance be maintained within the range of £0.1m to £0.75m
	Investment Fund	The approved expenditure from the reserve not to exceed the resources available in any one year
c)	**Operational Reserves**	Reserves are held for specific purposes therefore no predetermined range.

Any in year variance to these limits will be reported to Cabinet, who will consider the required action.

PURPOSE AND ADEQUACY OF THE COUNCIL'S RESERVES AND BALANCES

General Fund Balance

This reserve represents an accumulated working balance to meet future contingencies. The balance of the reserve at 31 March 2016 was £2.676m.

The 2012/13 outturn earmarked £420k to the General Fund to pay for costs of potential legal proceedings and insurance risks. £253k of the amount originally set aside has been utilised however and the remaining balance of £167k remains within the General Fund.

In addition to the above, the 2016 Financial Strategy (reference 16/57) earmarked £270k of the General Fund to balance the 2016/17 budget. It is unlikely that this draw will be required however and therefore the projected balance at 31 March 2017 is £2.676m.

With £150k being drawn from the Reserve in 2017/18 to fund the costs associated with the Tour De Yorkshire cycle event (16/246), the uncommitted balance of the General Fund at 31 March 2018 is forecasted to be £2.526m.

Capital Contingency Reserve

This reserve is essential in the management of Capital Resources.

There are two likely uses for the Capital Contingency Reserve.

(i) it will provide a flexible and responsive resource to fund **small-scale** ad hoc capital schemes.

(ii) It will provide contingency funding for potential additional costs incurred on the existing capital programme.

The uncommitted balance on the Reserve currently stands at £610k and a further revenue contribution of £100k will be transferred to the reserve in 2017/18. With £26k of the balance being required to fund a contribution towards Scarborough town centre resurfacing costs the balance of the reserve is forecast to be £684k at 31 March 2018.

Due to the Council's funding constraints it is important that the Council carefully manages its levels of budgetary risk, therefore the Contingency Reserve will continue to be monitored closely as part of the Councils structured financial management processes.

Capital Development Reserve

The Capital Development Fund underpins the Capital Strategy. It unifies all capital resources with the intention of focusing investment into priority areas over the medium term. The Capital Development Reserve aims to match resources to investments over a 10-year period. Current projections show a surplus within the reserve of £367k at the end of the ten year period, although the reserve shows overdrawn balances in some later years of the plan.

The Capital Development Reserve does, however, not make any provision for some essential and priority asset management and infrastructure works. Future capital receipts will be earmarked to address these works and increases in unsupported borrowing have been factored into future year revenue projections.

Insurance Reserve

The Insurance Reserve covers risks which are by their nature difficult to insure such as cliff slippage and certain storm damage, and risks which are generally uneconomic to insure such as damage due to leakage from water pipes and the theft of small items of equipment. The fund also meets the cost of some insurance excesses.

The balance of the insurance reserve was £1.428m at the 31 March 2016 and this is expected to reduce slightly by 31 March 2017 primarily as a result of using the reserve to fund repairs to shelters in Whitby following storms in December 2015.

The balance of the reserve, including contributions in 2017/18, is expected to be £1.549m at 31 March 2018 although this does not include having to fund costs associated with the January 2017 Tidal Surge should the Government decide that the event does not qualify for support through the Bellwin scheme.

Pension Reserve

The pension reserve is used to meet the upfront costs associated with the added year's element of employees' pensions and redundancy costs when compulsory redundancy occurs.

The forecast balance at 31 March 2017 is £939k after taking into account forecasted expenditure of £414k during 2016/17.

The budget proposals for 2017/18 have outlined a reduction of 7 FTE's, whilst some of these posts are currently vacant, some savings will be achieved through compulsory redundancy. The estimated costs of these redundancy payments (including term pension costs) is £53k.

The revenue budget makes provision for an annual contribution of £201k to the reserve and therefore current projections anticipate that the uncommitted balance on the reserve will increase to £1.088m during 2017/18.

Whilst this balance is in excess of the optimum range, it is recognised that this reserve will be subject to a particular strain over the short to medium term as the Council delivers the high level of savings targets needed to balance its revenue budget. The current balance is therefore considered to be appropriate.

Operational Reserves

These reserves are held for corporate areas as well as each Directorate. The reserves primarily relate to accumulated under spending that has been carried over to support known future operational requirements.

All transactions to and from these reserves are subject to the approval and review of the Section 151 Officer, in accordance with the Council's Financial Regulations, and the broad Policy Framework. Any proposed use of the reserves not within the overall Policy Framework would be reported to Cabinet / Council.

There are no predetermined ranges set for these reserves however they are reviewed by Senior Management on an annual basis. Any amounts that are deemed to be surplus to requirements are released to corporate reserves so that they can be taken into account in the Council's budget setting process.

APPENDIX F2

Reserves and Funds - Forecast Balance 31 March 2018

Reserve	Actual Balance 1 April 2016	Budgeted Movements 2016/17	Forecast Balance 31 March 2017	Budgeted Movements 2017/18			Forecast Balance 31 March 2018
				Revenue Conts / Transfers	Transfer	Capital receipts & utilisation	
General Fund Balance							
General Fund Reserve	(2,676,271)	-	(2,676,271)	150,000	-	-	(2,526,271)
	(2,676,271)	-	(2,676,271)	150,000	-	-	(2,526,271)
Corporate Reserves							
Capital Contingency Reserve	(600,456)	(10,000)	(610,456)	(74,000)	-	-	(684,456)
Capital Development Reserve / Investment Management Plan (including useable capital receipts)	(11,710,044)						
Pensions Provision	(1,151,803)	212,583	(939,220)	(148,543)	-	-	(1,087,763)
Insurance Reserve	(1,427,831)	14,364	(1,413,467)				
	(14,890,134)						
Section 106 and Commuted Sums							
Section 106 Commuted Sums	(2,020,456)						
Commuted Sums Street Seats	(159,876)						
Section 106 Maintenance Funds	(121,904)						
	(2,302,236)						

APPENDIX F3

Service Investment Fund - Forecast Balance 31 March 2018

To be completed

APPENDIX G1

CAPITAL DEVELOPMENT RESERVE EXPENDITURE 2016-2027

To be completed

APPENDIX H

RISK ASSESSMENT

Risk	Likelihood	Seriousness	How we will manage the risk
Non achievement of income targets	Medium	High	• Income monitored closely and monthly monitoring statements produced • Management review services offered and look to introduce new services / charges where appropriate • Advertising undertaken to increase market share where appropriate
Fluctuations in inflation, Government Grants and changes in legislation	Medium	High	• Reviewed through the Financial Strategy and monitored throughout the year. • Any changes in legislation fully considered. • Ensure that the minimum level of reserves is maintained to mitigate against risks. • Ensure that authorities interests are represented through the LGA and other groups.
Budgets are overspent	Medium	High	• Robust budget setting process • Month end close downs and automated reports produced for managers developing a culture of awareness and ownership • Regular monitoring with corrective action • Effective project planning and management • Ensure contingency sums where budget constraints allow
Savings are not achieved	Medium	High	• Regular budget monitoring to identify issues at early stage • Where savings are not achieved alternative savings must be identified • Establishment of reserves to mitigate against non achievement of savings
Reserves are inadequate	Medium	High	• Minimum levels of reserves are set and reviewed each year with consideration given to budget risks. • Reserve balances are reported to Cabinet on a quarterly basis and any breaches of minimum levels are highlighted • Minimum levels reviewed in line with changing economic conditions

APPENDIX H

RISK ASSESSMENT

Risk	Likelihood	Seriousness	How we will manage the risk
Changes in usage and demand affects revenue streams	Medium	High	• Regularly monitor income • Review trends • Take appropriate action to mitigate downward trends • Ensure income budgets are not too demanding
Budget does not reflect corporate priorities	Low	High	• Ensure corporate involvement in the budget process • Early consideration of budget pressures and changes in legislation • Regular reporting to Executive Board • Approved scoring criteria for prioritising capital and revenue bids
The capital programme is not affordable	Medium	High	• All schemes are monitored through the 10 year Capital Development Reserve • Capital contingency reserve provides a balance to mitigate against overspends on capital schemes • Regular monitoring and reporting to ensure potential overspends highlighted as early as possible • Inclusion of increased borrowing in future year revenue projections
Poor planning with decisions being made without proper consideration / consultation	Low	High	• Develop a long term Financial Strategy • Set out a clear budget timetable • Regular updates to Members • Effective consultation process focused on achieving responses from the full demographic of the borough
The Budget does not assess equalities impact on its population and community groups	Medium	Medium	• Each savings proposal included in the 2017/18 budget will have an 'Equalities and Diversity Assessment' carried out.
There are insufficient resources to meet the needs of asset management	High	High	• A specific budget has been allocated to asset management over a 10 year period • All schemes are prioritised • Borrowing has been factored into the 2017/18 and future year budgets to fund essential asset management works • The Council is undertaking a review to rationalise its assets • An asset management strategy has been developed

APPENDIX H

RISK ASSESSMENT

Risk	Likelihood	Seriousness	How we will manage the risk
Increase in number of households claiming Council Tax Support	Medium	High	• Monthly monitoring to report on numbers and cost of claims • A “new and cheaper rebate scheme” introduced • Rebate scheme has been reviewed for 2017/18 and will be regularly reviewed going forwards • Risk shared by all 4 major precepting authorities • Any shortfall included in Collection Fund calculation for following year so there is time to plan for any income shortfalls
Businesses fail and empty premises lead to lower NNDR collection rates	Medium	High	• Monthly monitoring in place to look at discounts awarded and overall tax base • Council focused on economic growth • Council entered a North Yorkshire business rate pool from 2014/15, which has been extended for 2015/16, 2016/17 and 2017/18, which should reduce the risk of a shortfall and maximise the retention of any surplus.

APPENDIX I

REVENUE BUDGETS 2017/18

The table below outlines the movement from the 2016/17 base budget to the 2017/18 budget by directorship.

Directorship	Base Budget 2016 / 2017	Movements between Base and Proposed Budgets						Proposed Approved Budget 2017 / 2018
		Growth	Inflation	Savings	One-Off Funded	Financing	Switches	
Chief Executive	2,717,299		-	(172,825)	-	-		
Director (Nick Edwards)	7,019,538		-	(952,865)	-	-		
Director (Lisa Dixon)	1,567,437		-	(83,106)	-	-		
Director (Trevor Watson)	3,550,342		-	(748,638)	-	-		
Total Budgets under specific Director Control	14,854,616		-	(1,957,434)	-	-		
Corporate	164,827		200,000	(34,780)	-	(49,738)		
Total Net Budget	**15,019,443**	**1,617,406**	**200,000**	**(1,992,215)**	**-**	**(49,738)**	**209,836**	**14,585,061**
Financed by:								
Local Government Finance Settlement	(6,819,622)	-	-	-	-	819,462	(370)	(6,000,530)
Borough Council Precept	(7,989,615)	-	-	-	-	(336,884)	-	(8,326,499)
Borough Council Collection Fund Deficit	(210,206)	-	-	-	-	(258,031)	210,206	(258,031)
Total Financing	**(15,019,443)**	**-**	**-**	**-**	**-**	**224,547**	**(209,836)**	**(14,585,061)**
Overall Total	**-**	**1,617,406**	**200,000**	**(1,992,215)**	**-**	**174,809**	**-**	**-**
		1,817,406						

This information is outlined in greater detail in the next section of the appendix.

APPENDIX I

REVENUE BUDGETS 2017/18

To be completed

APPENDIX J

A great place to live, work & play

SCARBOROUGH BOROUGH COUNCIL

Pay Policy Statement

1 April 2017 – 31 March 2018

DOCUMENT CONTROL

Author	Elaine Blades, Human Resources Manager
Owner	Human Resources Service
Protective Marking	NOT PROTECTIVELY MARKED
Cabinet Approval Date	
Council Approval Date	February 2016
Policy Date/Period	1 April 2017 – 31 March 2018
Policy Review Frequency	Annually

REVIEW HISTORY

Date	Reviewed By	Version	Any Revisions?
April 2013	Elaine Blades	0.2	Yes
April 2014	Elaine Blades	0.3	Yes
April 2015	Elaine Blades	0.4	Yes
February 2016	Elaine Blades	0.5	Yes
February 2016	Elaine Blades	0.6	Yes

REVISION HISTORY (only required where changes made)

Date	Revised By	Version	Description of Revision
April 2012	Elaine Blades	0.1	Creation of Policy
April 2013	Elaine Blades	0.2	Annual review to update figures
April 2014	Elaine Blades	0.3	Annual review to update figures
April 2015	Elaine Blades	0.4	Annual review to update figures
February 2016	Elaine Blades	0.5	Annual review to update figures
February 2017	Elaine Blades	0.6	Annual review to update figures

DOCUMENT REVISION APPROVALS

Version	Approval	Date
	Cabinet	
0.1	Council	February 2012
	Cabinet	
0.2	Council	February 2013
	Cabinet	
0.3	Council	February 2014
	Cabinet	
0.4	Council	February 2015
	Cabinet	
0.5	Council	February 2016
	Cabinet	
0.6	Council	February 2017

PAY POLICY STATEMENT

1.0 INTRODUCTION

1.1 Section 38 - 43 of the Localism Act 2011 requires the Council to produce a policy statement that covers a number of matters concerning the pay of the Council's employees. This Policy sets out the arrangements for salary and related allowances paid to employees of the Council. It details the arrangements for the determination of salary, how salary levels are determined, the method for pay progression (where applicable) and the payment of allowances.

2.0 WHO DOES THE PAY POLICY STATEMENT APPLY TO?

2.1 This pay policy statement is required to cover the following posts:-

a) Head of the Paid Service, which in this authority is the post of Chief Executive.

b) Statutory Chief Officers, which in this authority are the posts of:-
   i) Director (NE).
   ii) Director (LD).

c) Deputy Chief Officers, which in this authority are the posts of:-
   i) Director (TW).

3.0 DETERMINATION OF PAY

Chief Officers

3.1 The Council's policy on remunerating Chief Officers is set out below and in Appendix 1. For the purpose of the policy a Chief Officer is defined as the Chief Executive and Directors. It is the policy of the Council to establish a remuneration package for each Chief Officer post that is sufficient to attract and retain staff with the appropriate skills, knowledge, experience, abilities and qualities that is consistent with the authority’s requirements of the post in question at the relevant time. The terms and conditions of employment for such Chief Officers are as specified in the Joint Negotiating Committee Conditions of Service for Chief Officers for Local Authorities as supplemented by Local Agreements.

Other Aspects of Chief Officer Remuneration

3.2 Other aspects of Chief Officer remuneration are appropriate to be covered by this policy statement, these other aspects are defined as recruitment, pay increases, additions to pay, performance related pay, earn back, bonuses, termination payments, transparency and re-employment when in receipt of an LGPS pension or a redundancy/severance payment. These matters are addressed in the schedule that is attached to this policy statement at Appendix 2.

The Relationship between Chief Officer Remuneration and that of other Staff

3.3 The highest paid salary in the Council is £108,508.34 which is paid to the Chief Executive. The average salary in the Council is £22,717.83 pa (excluding the 'Living Wage supplement). The ratio between the two salaries is 4.73:1. The Council does not have a policy on maintaining or reaching a specific 'pay multiple', however the Council is conscious of the need to ensure that the salary of the highest paid employee is not excessive and is consistent with the needs of the Council as expressed in this policy statement. The Council's approach to the payment of other staff is to pay that which the Council needs to pay to recruit and retain staff with the skills, knowledge, experience, abilities and qualities needed for the post in question at the relevant time, and to ensure that the Council meets any contractual requirements for staff including the application of any local or national collective agreements, or authority decisions regarding pay.

The Lowest Paid in the Workforce

3.4 The Council applies terms and conditions of employment that have been negotiated and agreed through appropriate collective bargaining mechanisms (national or local) or as a consequence of Council decisions, these are then incorporated into contracts of employment. The lowest pay point in this authority is Scale 1, point 6 (Scale 1A), which currently equates to an annual salary of £15,014 (i.e. £7.7821 per hour). This pay point and salary was determined by the Council as part of a pay scale for employees employed on Local Government Services' Terms and Conditions with effect from 1 April 2017. It should also be noted that this Council has adopted the payment of the 'Living Wage' of £7.85 per hour, which is paid as a supplement to the nationally agreed rate for all employees on spinal column point 6.

Salary on Appointment

3.5 The post will be advertised and appointed to at the appropriate approved minimum point of the grade for the post in question unless there is good evidence that a successful appointment of a person with the required skills, knowledge, experience, abilities and qualities cannot be made without varying the remuneration package. In such circumstances incremental advancement within the grade range is appropriate under the Council's policy.

Flexibility to Address Recruitment Issues for Vacant Posts

3.6 In the vast majority of circumstances the provisions of this policy will enable the Council to ensure that it can recruit effectively to any vacant post. There may be exceptional circumstances when there are recruitment difficulties for a particular post and where there is evidence that an element or elements of the remuneration package are not sufficient to secure an effective appointment. This policy statement recognises that this situation may arise in exceptional circumstances and therefore a departure from this policy can be implemented without having to seek full Council approval for a change of the policy statement. Such a departure from this policy will be expressly justified in each case and will be approved through an appropriate authority decision making route.

Salary on Promotion

3.7 On promotion employees should normally be placed on the minimum point of the grade of the post. However, managers, in consultation with the Human Resources Manager, has discretion to award higher starting points within the grade range where justified by skills and experience of the candidate.

Pay Progression/Increases

3.8 The Council will apply any pay increases that are agreed by relevant national negotiating bodies and/or any pay increases that are agreed through local negotiations. The Council will also apply any pay increases that are as a result of authority decisions to significantly increase the duties and responsibilities of the post in question beyond the normal flexing of duties and responsibilities that are expected in senior posts. Beyond this the Council would not make additional payments outside those specified in the contract of employment.

Approval of Salary Packages in Excess of £100k

3.9 The Council will ensure that, at the latest before an offer of appointment is made, any salary package for any post that is in excess of £100k will be considered by full Council. The salary package will be defined as base salary, including any bonuses, fees, routinely payable allowances and benefits in kind that are due under the contract.

Amendments to the Policy

3.10 As the policy covers the period 1 April 2017 to 31 March 2018, amendments may need to be made to the policy throughout the relevant period. As the Localism Act 2011 requires that any amendments are approved by the Council by resolution, proposed amendments will be reported to the Appointments Committee for recommendation to the Council.

Policy for Future Years

3.11 This policy statement will be reviewed each year and will be presented to full Council each year for consideration in order to ensure that a policy is in place for the Council prior to the start of each financial year.

4.0 FURTHER INFORMATION

4.1 Further information on this policy can be obtained from the Human Resources Manager in the first instance.

APPENDIX 1

Policy on Remunerating Chief Officers

Post	Base Salary (nearest 1k)	Expenses	Bonuses	PRP	Earn Back	Honoraria	Ex Gratia Payments	Election Fees	Joint Authority Duties	Severance Arrangements
Chief Executive	£108k	Travel and other expenses are reimbursed through normal authority procedures	The terms of the contract of employment do not provide for the payment of bonuses	The terms of the contract of employment do not provide for PRP	The terms of the contract of employment do not provide for an element of base salary to held back related to performance	Honoraria payments for any increased duties and responsibilities do not apply	There are no plans for the postholder to receive any ex-gratia payments	Election duty fees are in accordance with normal authority procedures	There are no payments related to joint authority duties	The Council's normal policies regarding redundancy and early retirement apply to the postholder. No payments were made in the last year and none are anticipated for 2017/18
Director (NE)	£75k including payment for Section 151 duties.	Travel and other expenses are reimbursed through normal authority procedures	The terms of the contract of employment do not provide for the payment of bonuses	The terms of the contract of employment do not provide for PRP	The terms of the contract of employment do not provide for an element of base salary to held back related to performance	Honoraria payments for any increased duties and responsibilities do not apply	There are no plans for the postholder to receive any ex-gratia payments	None.	There are no payments related to joint authority duties	The Council's normal policies regarding redundancy and early retirement apply to the postholder. No payments were made in the last year and none are anticipated for 2017/18

Post	Base Salary (nearest 1k)	Expenses	Bonuses	PRP	Earn Back	Honoraria	Ex Gratia Payments	Election Fees	Joint Authority Duties	Severance Arrangements
Director (LD)	£75k including payment for Monitoring Officer duties.	Travel and other expenses are reimbursed through normal authority procedures	The terms of the contract of employment do not provide for the payment of bonuses	The terms of the contract of employment do not provide for PRP	The terms of the contract of employment do not provide for an element of base salary to held back related to performance	Honoraria payments for any increased duties and responsibilities do not apply	There are no plans for the postholder to receive any ex-gratia payments	None.	There are no payments related to joint authority duties	The Council's normal policies regarding redundancy and early retirement apply to the postholder. No payments were made in the last year and none are anticipated for 2017/18
Director (TW)	£75k	Travel and other expenses are reimbursed through normal authority procedures	The terms of the contract of employment do not provide for the payment of bonuses	The terms of the contract of employment do not provide for PRP	The terms of the contract of employment do not provide for an element of base salary to held back related to performance	Honoraria payments for any increased duties and responsibilities do not apply	There are no plans for the postholder to receive any ex-gratia payments	None.	There are no payments related to joint authority duties	The Council's normal policies regarding redundancy and early retirement apply to the postholder. No payments were made in the last year and none are anticipated for 2017/18

APPENDIX K

APPENDIX 2

Other Aspects of Chief Officer Remuneration

Recruitment	The post will be advertised and appointed to at the appropriate approved salary level for the post in question unless there is good evidence that a successful appointment of a person with the required skills, knowledge, experience, abilities and qualities cannot be made without varying the remuneration package. In such circumstances a variation to the remuneration package is appropriate under the Council's policy and any variation will be approved through the appropriate authority decision making process.
Pay Increases	The Council will apply any pay increases that are agreed by relevant national negotiating bodies and/or any pay increases that are agreed through local negotiations. The Council will also apply any pay increases that are as a result of Council decisions to significantly increase the duties and responsibilities of the post in question beyond the normal flexing of duties and responsibilities that are expected in senior posts.
Additions to Pay	The Council would not make additional payments beyond those specified in the contract of employment.
Performance Related Pay	The Council does not operate a performance related pay system as it believes that it has sufficiently strong performance management arrangements in place to ensure high performance from its senior officers. Any areas of underperformance are addressed rigorously.
Earn-Back (Withholding an element of base pay related to performance)	The Council does not operate an earn-back pay system as it believes that it has sufficiently strong performance management arrangements in place to ensure high performance from its senior officers. Any areas of underperformance are addressed rigorously.

SCARBOROUGH BOROUGH COUNCIL

EFFICIENCY PLAN 2016 TO 2020

1.0 This Plan has been developed so that the Council can apply for a four-year funding settlement from the Government and also benefit from some flexibility in the use of capital receipts. The acceptance of the four-year settlement will improve financial planning and will aid the medium term financial stability of the Council.

2.0 This Efficiency Plan is a summary of the appropriate sections of the Council's Financial Strategy 2016 – 2026 and Property asset Management Strategy 2016 – 2020, which were approved by the Council in February 2016. These documents can be found below:

Financial Strategy 2016 – 2026

http://democracy.scarborough.gov.uk/ecSDDisplay.aspx?NAME=Financial%20Strategy%202016-2026&ID=1348&RPID=5947680&sch=doc&cat=636&path=551%2c636

Property Asset Management Strategy 2016 – 2020

http://democracy.scarborough.gov.uk/ecSDDisplay.aspx?NAME=Property%20Asset%20Management%20Strategy%202016-2020&ID=1349&RPID=5947685&sch=doc&cat=636&path=551%2c636

3.0 This Plan includes three themes:

- Our approach to delivering the levels of savings required to balance the budget in each year of the Efficiency Plan;
- Our policy on reserves;
- How new flexibilities in the use if capital receipts will be considered; and
- Prudential Indicators for 2016/17 to ensure the Council's borrowing is affordable in the medium to long term

4.0 Balancing the Budget

4.1 The Council's policy has always been to be as efficient as possible and protect front line services and since 2010 the Council has delivered savings of £14.9m from its annual revenue budget. Over that same period performance in many areas has increased. Going forward the Council is facing a projected funding gap of £4.982m over the 3 year period from 2017/18 to 2019/20.

4.2 Despite the funding reductions imposed in recent years the Council has continued to be been pro-active in stimulating and facilitating economic regeneration and housing growth within the Borough. This investment has delivered significant benefits including boosting the tourism offering across the Borough, job creation, the attraction of significant inward investment and will upskill the local workforce for years to come. In return the Council has seen an upturn in business rates income and has retained a proportion of that income through the localised business rates retention scheme.

4.3 Efficiencies and investment in regeneration will continue to play a significant part in the Council's budget strategy going forward.

4.4 The proposed strategy to address the Council's funding gap for the period to 2020 is as follows:

4.5 **Review of existing budgets and previous year's outturn position**

4.5.1 The Council's financial outturn position for 2015/16 showed a significant underspend. It is important that the Council is not overly prudent in its budget setting approach and unnecessarily reduces service levels to bridge the funding gap when some budgets are overstated and could simply be reduced.

4.5.2 An exercise will be undertaken to review the savings that contributed towards the underspend with a view to including overstated areas as savings where they are expected to recur and haven't already been taken into account. A high level review of the areas has already been undertaken and it is anticipated that as much as £0.5million could be found from within existing annual budgets from this piece of work.

4.6 **Transformational Efficiencies and Commercialisation**

4.6.1 The Council has established a Transformation Working Group, which aims to challenge existing working practices and put new processes and systems in place to create future efficiencies. The Transformation programme will form the cornerstone of the Council's budget savings agenda over the efficiency plan period.

4.6.2 The Transformation Working Group is led by the Council's Chief Executive and, alongside a project lead officer, includes Services Unit Manager representatives from finance, audit, human resources, customer services and IT. A Transformation Board consisting of officers and members has also been established and will oversee the work of the group.

4.6.3 A number of business analysts have been seconded from service areas within the Council to assist the Transformation Working Group and undertake service reviews.

4.6.4 The overarching themes of the transformation programme are as follows:

- **Digitalisation** (to reduce the costs and administration associated with paper storage);
- **Customer self-service** (by offering easy to use, 24 hour access to online information and request forms for those customers that wish to use them);
- **End to end paperless solutions** (ensuring that online customer requests seamlessly integrate with back office systems to avoid the re-keying of information);
- **Single Truth databases** (to stop duplicate, contradictory information being maintained across the Council);
- **Improved Customer Service** (by keeping customers informed when they request information or services from the Council and make more services available online);

- **Commercialisation / Joint working** (to determine whether service areas could increase existing income sources or sell their services to external customers)

4.7 **Investment to support economic growth**

4.7.1 The Council will continue to prioritise and invest in economic growth and this will play a key role in the Council's budget strategy over the efficiency plan period. This in turn should deliver significant financial benefits for the Borough in terms of retained business rates income and job creation.

4.7.2 Exciting projects and schemes which the Council has been involved in and, where relevant, will continue to pursue include:

- Offshore Wind
- Potash
- Middle Deepdale housing development and regeneration
- Leisure Village
- Sands Development
- Coventry University development
- University Technical College development
- Development of the Business Parks at Whitby and Scarborough
- Redevelopment of the Futurist Theatre site

4.7.3 These schemes demonstrate the Council's long term commitment and investment in economic growth. It is hoped that this investment will continue to derive long term financial benefits to the Council in terms of increased business rates income over the efficiency plan period and beyond.

4.7.4 Any business rate growth over and above the levels already accounted for within the Council's revenue budget will be earmarked to provide investment in the Council's regeneration programme or Investment Fund (see section 5.7 below for further details). This will assist the Council in delivering its key transformational and economic growth aspirations.

4.8 **Strategic review of the Council's role in the delivery of services and use of assets**

4.8.1 The Council has been pro-active in recent years in reviewing the delivery of its services and working in partnership with other public sector bodies and external partners to change the way in which services are delivered. Given the uncertainties relating to the devolution agenda across the Yorkshire area the Council will continue to pursue these opportunities over the efficiency plan period.

4.8.2 The Council is not averse to outsourcing services to third party operators where it delivers benefits in terms of financial savings and service improvements. This is demonstrated by decisions taken in recent years to outsource the museums service, entertainment venues and leisure facilities. Outsourcing opportunities will continue to be considered over the efficiency plan period where there is a potential to derive tangible benefits; however experience from past outsourcing exercises suggests that, on occasion, minimal interest was expressed by service providers due to the Borough's geographic location and distance from major conurbations.

4.8.3 The Council already works in partnership with a range of public sector bodies to deliver services. Examples include the North Yorkshire Building Control Partnership, North Yorkshire Procurement Partnership, County-wide parking scheme, Home Improvement Agency and police and health multi-agency teams. Partnership working will continue to be reviewed and prioritised however it is recognised that political and geographical constraints with neighbouring authorities can impact on the Council's ability to pursue this option.

4.8.4 The Council generates an important income stream from its commercial asset portfolio and has increased income, usage and the occupation of public buildings by actively exploring co-location opportunities with public sector partners such as the Clinical Commissioning Group, police and health multi-agency teams, and coroner's court. These opportunities will continue to be explored over the Efficiency Plan period. In addition the Council will review its operational property portfolio with a view to rationalising its asset holdings by disposing of any that are surplus to requirements to generate efficiency savings in future years.

4.8.5 Given the extent of recent and future funding cuts a general downsizing of Council run services is considered inevitable. The Council will continue to review the types of services it delivers over the efficiency plan period, particularly where those services are not statutory and do not deliver significant economic development benefits. Cuts in service will however be considered as a last resort and will only be pursued after all efficiency and partnership working opportunities have been reviewed.

4.8.6 The Council will strive to work with local organisations and support them in taking on the operation of Council run services where it could be beneficial for them to do so. This will be supported by the Council's established Community Asset Transfer Plan.

4.9 Use of Reserves and Investment Fund

4.9.1 Financial projections show that the funding gap for 2017/18 is significantly higher than the funding gap identified for the following two years. Given that the transformation review programme will take time to evolve and identify savings it is proposed that £0.5m reserves be utilised in 2017/18 to reduce the level of savings required in that year and equalise the savings targets over the 3 year period.

4.9.2 The 2016 Financial Strategy established an Investment Fund to provide one off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond, and further contributions were made to the reserve from the 2015/16 year-end underspend. The £0.5m draw from reserves proposed for the 2017/18 yaer will be funded from this reserve.

4.9.3 Each year the Council reviews its earmarked reserves to free up monies that are no longer required. Given the scale of efficiency savings that will be required over the next 3 years any monies identified through this process will be transferred into the Investment Fund.

5.0 Reserves Policy

5.1 The Council's reserves policy is set out within the Council's Financial Strategy and includes criteria for the optimum ranges of specific categories of reserves.

5.2 The Council has no plans to change the currently applied optimum ranges over the Efficiency Plan period.

6.0 Use of capital receipts

6.1 The Government has announced greater flexibility for Councils in how they can make use of capital receipts (i.e. money received when an asset such as land or buildings are sold). Historically Councils were only allowed to spend such receipts on capital investment but the new flexibility allows the receipts to be used on any expenditure that could reform future service delivery, be it revenue or capital in nature.

6.2 The Council's currently available capital resources are fully committed however this type of investment will be considered in future should capital receipts become available.

7.0 Prudential Indicators

7.1 The Treasury Management Strategy and Prudential Indicators set out the Council's prudential indicators for 2016/17 and are included within the Council's Financial Strategy 2016 - 2026 document, which was approved in February 2016.

7.2 These indicators are designed to ensure that the Council's capital borrowing is affordable and does not place undue burden on the Council's revenue budget or Council Tax payers.