AGENDA SUPPLEMENT

SOUTH HOLLAND DISTRICT COUNCIL

Committee - **CABINET**

Date & Time - Tuesday, 14 February 2017 at 10.00 am

Venue - Council Chamber, Council Offices, Priory Road, Spalding

Membership of the Cabinet:

Councillors: The Lord Porter of Spalding CBE (Leader), C N Worth (Deputy Leader), M G Chandler (Deputy Leader), A Casson, P E Coupland, R Gambba-Jones, C J Lawton, S-A Slade, G J Taylor.

No substitutions permitted. Quorum 3.

Note: **Cabinet reports may be referred to Council or Scrutiny Panels. They should therefore be kept for future reference during the current committee cycle.**

Persons attending the meeting are requested to turn mobile telephones to silent mode

Democratic Services
Council Offices, Priory Road
Spalding, Lincs PE11 2XE

Date: 10 February 2017

Please ask for Christine Morgan: Telephone 01775 764454
e-mail: cmorgan@sholland.gov.uk

A G E N D A

8.	Draft Budget, Medium Term Plan and Capital Strategy - To consider the General Fund and Housing Revenue Account 2017-18 draft revenue and capital estimates and the draft Financial Medium Term Plan (joint report of the Portfolio Holder for Finance and the Executive Director for Commercialisation (S151) – Appendices D to H enclosed).	(Pages 54 - 105)
9.	Welland Homes Financial Model - To consider a financial model for Welland Homes Limited (Welland Homes) (report of the Portfolio Holder – Finance and the Executive Director Commercialisation (S151) enclosed). **(Please note that the appendices associated with this report are not for publication by virtue of Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) in Part 1 of Schedule 12a of the Local Government Act 1972, and are therefore attached to this agenda as item 13.)**	(Pages 106 - 113)
10.	Sub-committee of Cabinet for the Community Hub Project - To recommend the formation of a sub-committee of Cabinet to oversee the Priory Road Community Hub project (report of the Portfolio Holder for Strategy, Governance and Transformation and Director of Commercialisation (S151) enclosed).	(Pages 114 - 123)
12.	To consider resolving that, under section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of part 1 of Schedule 12A of the Act	
13.	Welland Homes Financial Model - Appendices (Enclosed)	(Pages 124 - 129)

Appendix D

GENERAL FUND RESERVES - 2016/17 TO 2020/21

Reserve	Balance 1 April 2016 £'000	In £'000	Out £'000	Balance 31 March 2017 £'000	In £'000	Out £'000	Balance 31 March 2018 £'000	In £'000	Out £'000	Balance 31 March 2019 £'000	In £'000	Out £'000	Balance 31 March 2020 £'000	In £'000	Out £'000	Balance 31 March 2021 £'000
General Fund Working Balance	2,064	301	(64)	**2,301**	-	(301)	**2,000**	-	-	**2,000**	-	-	**2,000**	-	-	**2,000**
Specific Reserves																
Council Tax Reserve	2,704	341	(1,508)	**1,537**	-	(380)	**1,157**	-	-	**1,157**	-	(120)	**1,037**	-	-	**1,037**
Insurance Reserve	220	-	-	**220**	-	-	**220**	-	-	**220**	-	-	**220**	-	-	**220**
Investment and Growth	3,305	1,569	(50)	**4,824**	1,099	(3,750)	**2,173**	817	(1,091)	**1,899**	754	(1,695)	**958**	615	(1,573)	**-**
Moving Forward Reserve	973	-	(694)	**279**	-	(273)	**6**	-	(6)	**-**	-	-	**-**	-	-	**-**
Replacement and Refurbishment	239	136	(175)	**200**	136	(166)	**170**	136	(99)	**207**	136	(102)	**241**	136	(88)	**289**
Total Specific Reserves	**7,441**	**2,046**	**(2,427)**	**7,060**	**1,235**	**(4,569)**	**3,726**	**953**	**(1,196)**	**3,483**	**890**	**(1,917)**	**2,456**	**751**	**(1,661)**	**1,546**
Total General Fund Reserves	**9,505**	**2,347**	**(2,491)**	**9,361**	**1,235**	**(4,870)**	**5,726**	**953**	**(1,196)**	**5,483**	**890**	**(1,917)**	**4,456**	**751**	**(1,661)**	**3,546**

Appendix D

HOUSING REVENUE ACCOUNT RESERVES - 2016/17 TO 2020/21

Reserve	Balance 1 April 2016 £'000	In £'000	Out £'000	Balance 31 March 2017 £'000	In £'000	Out £'000	Balance 31 March 2018 £'000	In £'000	Out £'000	Balance 31 March 2019 £'000	In £'000	Out £'000	Balance 31 March 2020 £'000	In £'000	Out £'000	Balance 31 March 2021 £'000
HRA Working Balance	8,968			**8,968**		198	**9,166**		(19)	**9,147**		(202)	**8,945**		(330)	**8,615**
Major Repairs Reserve	2,609	6,660	(3,915)	**5,355**	6,307	(7,684)	**3,978**	6,307	(10,184)	**101**	6,307	(6,341)	**67**	6,307	(6,341)	**33**
HRA Insurance Reserve	200			**200**			**200**			**200**			**200**			**200**
	11,777	**6,660**	**(3,915)**	**14,523**	**6,307**	**(7,486)**	**13,344**	**6,307**	**(10,203)**	**9,448**	**6,307**	**(6,543)**	**9,212**	**6,307**	**(6,671)**	**8,848**

Appendix E

CAPTIONS						
CAPITAL PROGRAMME 2016/17 TO 2020/21						
Scheme Description	**2016-17 Original Budget** £'000	**2016/17 Forecast Outturn** £'000	**2017/18 Budget** £'000	**2018/19 Budget** £'000	**2019/20 Budget** £'000	**2020/21 Budget** £'000
GENERAL FUND						
ICT						
Digital Vision	-	18	182	-	-	-
ICT Infrastructure	-	166	170	-	-	-
Assets and Property						
Council Chamber Conference Mic System	-	-	28	-	-	-
Wardentree Lane Industrial Estate - Re-Roofing	-	-	47	-	-	-
Fleet Road, Holbeach Industrial Estate - Re-Roofing	-	-	55	-	-	-
Railway Lane, Sutton Bridge Industrial Units	-	-	65	-	-	-
Economic Development						
Growth Fund (FEZ)	50	50	-	-	-	-
Broadband Lincs - Economic Development - Economic Development	-	36	-	-	-	-
Housing						
Travellers Sites - Capital - GF Capital	-	330	78	-	-	-
Disabled Facilities Grants - Private - Housing - Private Sector Housing	325	458	325	325	325	325
Decent Homes Unfit And Disrepair - Housing - Unfit and Disrepair	75	75	75	75	75	75
Welland Homes	2,051	931	1,120	-	-	-
Approved schemes	**2,501**	**2,064**	**2,145**	**400**	**400**	**400**
FINANCING OF APPROVED SCHEMES						
Borrowing	(2,051)	(931)	(1,120)	-	-	-
Capital Receipts	-	(184)	(547)	-	-	-
Grants & Contributions	(400)	(863)	(478)	(400)	(400)	(400)
Direct Revenue Financing	(50)	(86)	-	-	-	-
	(2,501)	**(2,064)**	**(2,145)**	**(400)**	**(400)**	**(400)**
Schemes subject to detailed approval						
ICT - Digital Vision			329	-	-	-
Economic Development - Food Enterprise Zone			0	1,091	-	-
Growth Fund Unallocated			1,000	-	1,395	1,273
Assets and Property (Priory Road)			2,700	-	-	-
Environmental Services (Grounds Maintenance and Vehicle Replacement)			50	-	300	300
	-	**-**	**4,079**	**1,091**	**1,695**	**1,573**
FINANCING OF SCHMES SUBJECT TO APPROVAL						
Capital Receipts			(329)	-	-	-
Direct Revenue Financing			(3,750)	(1,091)	(1,695)	(1,573)
	0	**0**	**(4,079)**	**(1,091)**	**(1,695)**	**(1,573)**
Total - GENERAL FUND PROGRAMME	**2,501**	**2,064**	**6,224**	**1,491**	**2,095**	**1,973**

Appendix E

CAPITAL PROGRAMME 2016/17 TO 2020/21 Scheme Description	2016-17 Original Budget £'000	2016/17 Forecast Outturn £'000	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
HOUSING REVENUE ACCOUNT						
Central Heating	1,230	1,193	1,254	1,200	1,150	1,150
Kitchen / Bathroom	1,341	910	1,354	1,368	1,382	1,382
Electrical Upgrade - Capital - HRA Capital	101	106	102	120	120	120
Renewable Energy and Energy Efficiency - Capital - HRA	100	105	120	130	135	135
Decent Homes Component Replacements - Capital - HRA	-	230	200	250	250	250
Roofs	608	639	465	470	474	474
Fees	416	-	416	412	410	410
Decent Homes	**3,796**	**3,183**	**3,911**	**3,950**	**3,921**	**3,921**
Sewage Treatment plant	65	65	65	65	65	65
The Square	250	313	50	-	-	-
Off street parking	60	30	-	-	-	-
Major Area schemes	**375**	**408**	**115**	**65**	**65**	**65**
Allocations & Lettings	18	18	-	-	-	-
Asset Management	70	-	-	-	-	-
ICT Strategy	10	10	184	50	50	50
IT / System	**98**	**28**	**184**	**50**	**50**	**50**
Major Adaptations	450	250	400	400	375	375
Aids & Adaptations	**450**	**250**	**400**	**400**	**375**	**375**
Weston Redevelopment Scheme	1,375	65	1,145	2,290	-	-
Severn Road Development Scheme			-	1,500	-	-
Purchase of units	920	-	-	-	-	-
Buy Back - Shared Ownership	165	-	165	165	165	165
Affordable Housing	**2,460**	**65**	**1,310**	**3,955**	**165**	**165**
Approved schemes	**7,179**	**3,934**	**5,920**	**8,420**	**4,576**	**4,576**
Borrowing - Welland Homes		0	0	-	-	-
Capital Receipts	(873)	(20)	(344)	(765)	-	-
Grants & Contributions				0	0	0
Major Repairs Reserve	(1,594)	(2,296)	(1,600)	(3,678)	(599)	(599)
Direct Revenue Financing	(4,712)	(1,619)	(3,977)	(3,977)	(3,977)	(3,977)
FINANCING	**(7,179)**	**(3,934)**	**(5,920)**	**(8,420)**	**(4,576)**	**(4,576)**
Schemes subject to detailed approval						
Affordable Housing			2,529	2,529	2,530	2,530
Schemes subject to detailed approval	**-**	**-**	**2,529**	**2,529**	**2,530**	**2,530**
Capital Receipts			(422)	-	(765)	(765)
Grants & Contributions						
Major Repairs Reserve	0	0	(2,108)	(2,529)	(1,765)	(1,765)
Direct Revenue Financing						
FINANCING	**0**	**0**	**(2,529)**	**(2,529)**	**(2,530)**	**(2,530)**
Total - HRA PROGRAMME	**7,179**	**3,934**	**8,449**	**10,949**	**7,106**	**7,106**

Introduction

The Capital Programme is estimated on a 5 year rolling basis and the council renews its Capital Strategy annually to maintain a strong and current link to the Corporate Plan.

This document focuses on core principles that underpin the capital programme as presented in appendix E to the Draft Budget, Medium Term Plan and Capital Strategy report to council.

Core Strategy

From 2016-17 to 2019-20 the Council will invest in the district in order to advance the priorities stated within the Corporate Plan. Revenue budget efficiencies have been identified to enable the programme and additional funding will be sought at every opportunity. The management process has four core principles.

- Promote Invest to Save projects in all areas & manage the impact of investment decisions on revenue budgets.
- Performance management to be applied to all projects to ensure targets are met and projected benefits are realised.
- Continually review processes and ensure effective pre and post project appraisal is in place.
- Optimise external capital funding to support and enhance the investment programme and assist in meeting the priorities of the council.

Schemes will be considered for inclusion in the Capital Programme based on affordability, value for money and deliverable outputs that meet the Corporate Plan and council objectives.

The Council is required to have regard to the Prudential Code for Capital Finance in Local Authorities, to demonstrate that proposals are affordable, sustainable and prudent.

Capital financing from various sources as identified below are also examined annually to ensure that performance is in line with the prudential code indicators.

Capital financing sources

Capital Resource	Implications with regards to future funding
Capital Receipt	These are generated from disposal of assets
Section 106 – Planning Obligations	The Council has powers under section 106 of the Town & Country planning act 1990 to provide for infrastructure and facilities to support the local community.
External grants and contributions	The Council receives Better Care funding to deliver the mandatory Disabled Facility Grant programme as an example.
Revenue Contributions	Revenue contributions to Capital outlay (RCCO) are an integral part of the Capital programme. Efficiency savings built into the Revenue Budget are used together with government funding and council tax increases to promote growth in the district.
Balances and Reserves	The council holds both general and specific reserves, earmarked to support service areas. All reserves have been re-examined and where earmarked reserves are no longer required balances have been transferred to an appropriate reserve including a new Investment & Growth reserve which is primarily available for Capital expenditure

	financing. The HRA business plan shows that after funding the capital programme, general balances will be maintained. These will generate investment income for the HRA. Future investment plans may utilise these balances including the Major Repairs Reserve.
Borrowing	The Council currently holds £67.456m of Long Term HRA debt following the introduction of the HRA Self-Financing scheme in 2012. The projected capital programme does not require any additional borrowing at this time.

Disposals Policy

The Council's Asset Management Plan details the approach to asset disposal. As a principle, the Council releases funding from under utilised assets. Asset Management is a key component in the Council's efficiency strategy.

Generally the Council seeks to achieve 'best consideration' in disposing of assets, via a sale subject to competition. In certain circumstances it may be for less than the highest price, normally where the disposal will contribute to the improvement of the economic, social or environmental well being of the whole or part of the area.

Framework for managing and monitoring performance

The governance framework in place currently includes:

- The Capital Strategy is presented annually, as part of the Medium Term Financial Plan, to Council;

- The overall Capital Programme and financing is subject to approval by the Cabinet and Council;

- Progress on the Capital Programme and its financing will be reported to Cabinet on a quarterly basis;

An option appraisal methodology for proposed new schemes is used, ensuring accordance with corporate objectives.

All policies and procedures are subject to review and in 2016/17 additional capital expenditure controls are to be introduced to strengthen the quarterly monitoring regime.

Risks in the area are reviewed periodically and every time a new major project is added to the programme. These are aligned to the corporate risk register as appropriate.

Risk assessment

Area	Issue
Asset Management Strategy	The Council's Asset Management Strategy supports this Capital Strategy. Annual reviews of assets may identify surplus assets available to generate capital receipts for future capital investment. The HRA Asset Management Strategy has been developed to complement the HRA Business Plan by formalising the Council's approach to asset management in respect of its housing stock.
Risk Management	Each capital project will have a risk profile, including political, economic, legal, organisational and financial risk assessments. Monitoring and control of exempt input tax is essential for the council. Where exempt input tax exceeds the current 5% de-minimus limit it is irrecoverable and is charged to the programme. Each capital project will be assessed for VAT implications.
Sustainability and Carbon & Waste Reduction	A Sustainability Appraisal has been developed from the Local Development Framework. Key capital programmes will be evaluated against sustainability objectives.
Procurement	The purchase of capital assets should be conducted in accordance with the Procurement Strategy, ensuring value for money, legality and sustainability at all times.
Housing	There is increasing pressure with regards to the Council's statutory obligation concerning Disabled Facilities Grants (DFG). The sustainability of this needs review in light of the Medium Term Financial Plan, the change in funding source to the Better Care Fund and potential reductions in grant from Lincolnshire County Council. HRA income from rent is reducing due to additional sales of properties under right to buy regulations. Replacement of this income is essential to protect the long term financial viability of the service.
Invest to save schemes and VFM	Whilst there are revenue implications for investing in capital schemes, the Council is keen to invest in areas that result in long-term revenue savings and increased income. Principles of value for money (VFM) will be present in all projects as defined in the programme bid process.

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

South Holland District Council

2017/18

INDEX

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk policy, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

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

The Council's treasury function is undertaken by Compass Point Business Services (East Coast) Ltd (CPBS) on behalf of the Council. CPBS is responsible for:

- Production of the draft annual treasury management strategy
- Production of regular treasury management policy reports
- Production of treasury management practices
- Production of budget and budget variations relating to the treasury management function
- Production of management information reports
- Provision of adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function
- Arrangement of the appointment of external service providers.

1.2 Reporting requirements

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

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

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

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

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training is arranged as required.

The training needs of CPBS treasury management officers are periodically reviewed.

1.5 Treasury management consultants

CPBS uses Capita Asset Services as external treasury management advisors for the Council.

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

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

2. The Capital Prudential Indicators 2017/18 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members approve capital expenditure forecasts as part of the annual Budget report.

The capital expenditure plans mirror those within the budget report and will be amended throughout the year as spending plans alter.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Expenditure £'000's	**2015/16 Actual**	**2016/17 Latest Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
General Fund	1,970	2,064	6,224	1,491	2,095
Housing Revenue Account	4,450	3,934	8,449	10,949	7,106
Total Expenditure	**6,420**	**5,998**	**14,673**	**12,440**	**9,201**
Financed by:					
Capital Receipts	101	204	1,642	765	765
Capital Grants & Contributions	819	863	478	400	400
Major Repairs Reserve	4,411	2,296	3,708	6,207	2,364
Direct Revenue Financing	1,089	1,704	7,725	5,068	5,672
Total Funding	**6,420**	**5,067**	**13,553**	**12,440**	**9,201**
Net financing need for the year	**0**	**931**	**1,120**	**0**	**0**

NB: Financing need reflects planned expenditure to Welland Homes Limited in 2016/17 and 2017/18.

The above financing need excludes other long term liabilities, such as Private Financing Initiative (PFI) and leasing arrangements which already include borrowing instruments.

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR at present.

As part of the formal governance process, the Council approves the CFR projections as follows:

£000's	2015/16 Actual	2016/17 Latest Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR – Non HRA	307	1,238	2,358	2,358	2,358
CFR - HRA	69,583	69,583	69,583	69,583	69,583
Total CFR	**69,890**	**70,821**	**71,941**	**71,941**	**71,941**
Movement in CFR	**(1,927)**	**931**	**1,120**	**0**	**0**

Movement in CFR represented by:					
Net financing need for the year (above)	0	931	1,120	0	0
Less MRP/VRP and other financing movements	(1,927)	0	0	0	0
Movement in CFR	**(1,927)**	**931**	**1,120**	**0**	**0**

Note the MRP includes finance lease annual principal payments.

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. 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 Statement*:*

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1)

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3)

These options provide for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in finance leases are applied as MRP.

Any loans to Welland Homes and South Holland Local Housing Company which are classed as capital expenditure will increase the Council's CFR. The Council will earmark the repayment of the loans to reduce the CFR and therefore will not apply MRP on such loans.

Appropriation of Assets – Where assets do not change ownership and borrowing is not required; the Council will not apply MRP on the asset value transferred.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £'000's	2015/16 Actual	2016/17 Latest Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund Balance	2,064	2,301	2,000	2,000	2,000
HRA Working Balance	8,968	8,968	9,166	9,147	8,945
HRA Insurance Reserve	200	200	200	200	200
Major Repairs Reserve	2,609	5,355	3,978	101	67
Earmarked Reserves	7,441	7,060	3,726	3,483	2,456
Capital Grants Unapplied	2,238	1,570	1,495	1,420	1,345
Capital Receipts	2,579	3,162	2,286	2,286	2,286
Total core funds	**26,099**	**28,616**	**22,851**	**18,637**	**17,299**
Working Capital*	3,878	3,878	3,878	3,878	3,878
Under Borrowing	(2,434)	(3,365)	(4,485)	(4,485)	(4,485)
Expected investments	**27,543**	**29,129**	**22,244**	**18,030**	**16,692**

*Working capital balances shown are estimated year end; these may be higher mid-year.

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. As part of the formal governance process, the Council approves the indicators in paragraphs 2.6 to 2.9.

2.6 Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	12.44%	(1.18%)	(0.77%)	(0.85%)	(1.77%)
HRA	27.05%	23.82%	28.66%	28.97%	29.22%

2.7 Incremental impact of capital investment decisions on the band D council tax.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	7.92	0.53	0.81	0.24	0.66

2.8 Incremental impact of capital investment decisions on housing rent levels.

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly Housing Rent Levels	0.17	0.07	0.13	0.20	0.16

This indicator will show the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

2.9 HRA Ratios

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	67	67	67	67	67
HRA revenues £m	17	16	16	16	16
Ratio of debt to revenues (%)	**401**	**414**	**419**	**423**	**427**

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	67	67	67	67	67
Number of HRA dwellings	3,847	3,829	3,809	3,789	3,769
Debt per dwelling (£)	**17,535**	**17,617**	**17,710**	**17,803**	**17,898**

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000's	2015/16 Actual	2016/17 Latest Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt at 1 April	67,469	67,456	67,456	67,456	67,456
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	(13)	0	0	0	0
Actual gross debt at 31 March	67,456	67,456	67,456	67,456	67,456
The Capital Financing Requirement	**69,890**	**70,821**	**71,941**	**71,941**	**71,941**
Under / (over) borrowing	**2,434**	**3,365**	**4,485**	**4,485**	**4,485**

Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000's	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	79,360	79,360	79,360	79,360
Other long term liabilities	1,000	1,000	1,000	1,000
Total	80,360	80,360	80,360	80,360

The Authorised Limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt, which while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has never been exercised.
2. As part of the formal governance process, the Council approves the following indicators, as shown below:

Authorised limit £'000's	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	89,456	89,456	89,456	89,456
Other long term liabilities	1,000	1,000	1,000	1,000
Total	90,456	90,456	90,456	90,456

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	74,701	74,701	74,701	74,701

3.3. Prospects for interest rates

Capita Asset Services has been appointed as the Council's treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Appendix 5a** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita Asset Services' central view.

	Bank Rate %	PWLB Borrowing Rates% (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Dec 2016	0.25	1.60	2.30	2.90	2.70
Mar 2017	0.25	1.60	2.30	2.90	2.70
Jun 2017	0.25	1.60	2.30	2.90	2.70
Sep 2017	0.25	1.60	2.30	2.90	2.70
Dec 2017	0.25	1.60	2.30	3.00	2.80
Mar 2018	0.25	1.70	2.30	3.00	2.80
Jun 2018	0.25	1.70	2.40	3.00	2.80
Sep 2018	0.25	1.70	2.40	3.10	2.90
Dec 2018	0.25	1.80	2.40	3.10	2.90
Mar 2019	0.25	1.80	2.50	3.20	3.00
Jun 2019	0.50	1.90	2.50	3.20	3.00
Sep 2019	0.50	1.90	2.60	3.30	3.10
Dec 2019	0.75	2.00	2.60	3.30	3.10
Mar 2020	0.75	2.00	2.70	3.40	3.20

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the European Union (EU), it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Federal Reserve Bank (Fed.) rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

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

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently 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 in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
  - Italian constitutional referendum 4.12.16 resulted in a ‘No’ vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
  - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
  - Dutch general election 15.3.17;
  - French presidential election April/May 2017;

- French National Assembly election June 2017;
- German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns

3.4 Borrowing strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Treasury management limits on activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

As part of the formal governance process, the Council approves the treasury indicators, as follows:

£,000's	2017/18	2018/19	2019/20
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	86,456	86,456	86,456
Limits on variable interest rates based on net debt	8,000	8,000	8,000
Limits on fixed interest rates: • ***Debt only*** • ***Investments only***	86,456 (35,000)	86,456 (35,000)	86,456 (35,000)
Limits on variable interest rates: • ***Debt only*** • ***Investments only***	8,000 (15,000)	8,000 (15,000)	8,000 (15,000)
Maturity structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	100%
Maturity structure of variable interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	10%
5 years to 10 years		0%	10%
10 years to 20 years		0%	10%
20 years to 30 years		0%	10%
30 years to 40 years		0%	10%
40 years to 50 years		0%	10%

3.5 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 within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

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

The reasons for any rescheduling to take place will include:

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

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

All rescheduling will be reported to the Cabinet , at the earliest meeting following its action.

3.7 Municipal Bonds Agency

It is likely that the Municipal Bond Agency will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the PWLB. This Authority intends to make use of this new source of borrowing as and when appropriate.

4 Annual Investment Strategy

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from CIPFA , and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

The Council's funds are managed by CPBS with reference to a detailed cash flow forecast on a daily basis for the current year. Protocols are in place to govern the movement of funds within specific limits.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps (CDS) and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in **Appendix 5c** under the 'specified' and 'non-specified' investments categories. The maximum total investments to any individual financial institution or its parent group is £5m. The maximum limit for individual money market funds is £10m.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit 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;
- 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 and 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 coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

- Yellow 5 years
- 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 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)

- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Capita Asset Services 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.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. CPBS is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- 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.

- in addition to the use of credit ratings CPBS will be advised of information in movements in CDS spreads 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 this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

4.3 Country limits

The Council has determined that it will only use approved counterparties from the United Kingdom or countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 5d**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/2017 0.25%
- 2017/ 2018 0.25%
- 2018/ 2019 0.25%
- 2019/2020 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

As part of the formal governance process, the Council approves the treasury indicator and limit, as follows:

Maximum principal sums invested > 364 days			
£'000's	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	£m 4,000	£m 4,000	£m 4,000

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment Risk Benchmarking

The Council has not adopted any formal benchmarks in this area, as Officers believe that decisions on counterparties and maximum investment levels are adequate to monitor the current and trend position, and amend the operational strategy to manage risk as conditions change.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 APPENDICES

5a	Interest rate forecasts 2017 - 2020
5b	Economic Background
5c	Treasury Management Practice 1 – Credit and Counterparty Risk Management
5d	Approved countries for investments
5e	Treasury management scheme of delegation
5f	The treasury management role of the Section 151 Officer

APPENDIX 5a - Interest Rate Forecasts 2017 - 2020

PWLB rates and forecast shown below take account of the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View														
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Bank Rate														
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB Rate														
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
Capital Economics	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%	3.20%
10yr PWLB Rate														
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
Capital Economics	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%	3.60%
25yr PWLB Rate														
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
Capital Economics	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%	4.15%
50yr PWLB Rate														
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Capital Economics	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%	4.10%

APPENDIX 5b - Economic Background

UK. Gross Domestic Product (GDP) growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

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

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

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

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

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

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a ‘business as usual’ mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

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

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

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

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

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

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

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

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

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

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

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

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

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

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bailout funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is

that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.
- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election**; first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017**.
- **German Federal election August – 22 October 2017**. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the EZ currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

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

Asia. Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.

- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

APPENDIX 5c - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house
Term deposits – local authorities	N/A	In-house
Term deposits – banks and building societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
Certificates of deposit issued by banks and building societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
Treasury Bills	UK sovereign rating	In-house
Bonds issued by multilateral development banks	AAA	In-house buy and hold
Money market funds	AAA	In-house (£10m limit for cash flow purposes)

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max of total investments	Max. maturity period
UK part nationalised banks	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year
Banks part nationalised by AAA or AA- sovereign rating countries – non UK	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

N.B. buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of the Accounting Code of Practice.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £5m will be held in aggregate in non-specified investments.

1. Maturities of ANY Period

	Minimum Credit Criteria	Use	Max % of non-specified investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Sovereign rating of AAA or AA- and minimum colour of green on our external treasury advisers credit rating matrix	In-house	100%	1 year
UK Government Gilts	UK sovereign rating	In-house buy and hold	100%	2 year
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold	100%	2 year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (eg National Rail)	UK sovereign rating	In-house buy and hold	100%	2 year
Collateralised deposits (see note 1)	UK Sovereign rating	In-house	100%	2 year

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -				
	Minimum Credit Criteria	**Use**	**Max % of non-specified investments**	**Max. maturity period**
1. Government Liquidity Funds	Long-term AAA volatility rating MR1+	In-house	100%	5 years
2. Enhanced Money Market Funds with a credit score of 1.25	Long-term AAA volatility rating MR1+	In-house	100%	5 years
3. Enhanced Money Market Funds with a credit score of 1.50	Long-term AAA volatility rating MR1+	In-house	100%	5 years
4. Bond Funds	Long-term AAA volatility rating MR1+	In-house	100%	5 years
5. Gilt Funds	Long-term AAA volatility rating MR1+	In-house	100%	5 years

Note 1. as collateralised deposits are backed by collateral of AAA rated local authority LOBO's, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.

2. Maturities in excess of 1 year

	Minimum Credit Criteria	**Use**	**Max % of non-specified investments**	**Max. maturity period**
Term deposits – UK local authorities	N/A	In-house	100%	5 year
Loans to: Welland Homes, South Holland Local Housing Company.	Owned by South Holland DC	In-House	£4m £1m	5 year
Term deposits – banks and building societies	Sovereign rating of AAA or AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	100%	5 year
Certificates of deposit issued by banks and building societies	Sovereign rating of AAA or AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	100%	5 year
Bonds issued by multilateral development banks	AAA	In-house	100%	5 year

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Property Funds		In-House	£5m	

The use of property funds can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

Whilst these are maximum limits, under normal circumstances the Section 151 Officer will ensure lower limits are maintained. The higher limits are required to allow flexibility in the movement of funds if a particular issue or circumstance arises e.g. global banking crisis.

The maximum total investment to any individual financial institution or its parent group is £5m and the limit with Money Market Funds is £10m.

APPENDIX 5d - Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

APPENDIX 5e - Treasury management scheme of delegation

(i) Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- approval of / amendments to the council's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities as contained in the Financial Regulations

(ii) Cabinet and Governance & Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing the annual strategy and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations.

SCRUTINY AND MONITORING

Council delegates the scrutiny and monitoring of the Treasury Management function to the Governance and Audit Committee. As a minimum they will receive a Mid Term Treasury report on investment issues and performance. Training will be made available for members of the Governance and Audit Committee to ensure they have the necessary skills to undertake this role. Recommendations will be reported to Cabinet.

The Governance and Audit Committee will also have access to professional and independent advice and support as required in order to undertake this role.

APPENDIX 5f - The treasury management role of the Section 151 Officer and deputy

The Section 151 Officer responsibilities are as follows:

- managing the Treasury Management function
  - recommending treasury management policies and practice for approval, reviewing the same regularly and monitoring compliance
  - Ensuring the adequacy of treasury management resources and skills are maintained by CPBS
  - Receiving and reviewing management information reports from CPBS
  - Reviewing the performance of the treasury management function
- Informing Elected members
  - Submitting regular treasury management reports to Members
  - Reviewing the treasury management strategy
  - Maintaining an effective internal audit of treasury management and liaising with external audit.

Compass Point Business Services (CPBS) is responsible for the provision of:

- treasury management strategy statements and practices for approval
- regular treasury management policy reports
- budget and budget variations
- management information reports
- adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function, and;
- arranging the appointment of external treasury management advisors.

Where the use of particular instant access accounts, notice accounts and money market funds has been approved by the Section 151 Officer, CPBS treasury officers have delegated authority to withdraw and deposit funds within the agreed limits contained in this strategy.

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APPENDIX H

FEES AND CHARGES – 2017 18 Estimates

Environmental Health (Public Protection)

Activity	Policy	Proposal
Licensing	The fee will be set locally on cost recovery for the service with the exception of the statutory set fees which are set by central government. The authority will have a duty to have regard to guidance issued by the Secretary of State which outlines the issues that should be considered by them when setting the fee and what activities the fee can and cannot be covered within the fee setting process.	Fees set to cover costs on fee recovery or are set by legislation
Food Safety/ Health and Safety Training	SHDC has the responsibility of educating the community on food, health & safety matters. Fees set to cover costs and take into account course demand and competitors fees	Fees set to cover costs.
Pollution Control	Statutory fees are set not to make a profit, but to ensure businesses are operating legally	Charges in line with policy
Food Safety	Discretionary fees to cover costs. Voluntary surrender and export fees are statutory. Statutory fees are set not to make a profit, but to ensure businesses are operating legally	Charges in line with policy
Scrap Metal	As per the Scrap Metal Dealers Act 2013.The fee will be set locally by each local authority on a cost recovery basis, but local authorities will have a duty	Charges in line with policy

	to have regard to guidance issued by the Secretary of State which outlines the issues that should be considered by them when setting the fee and what activities the fee can cover	
Street Traders	Roadside trading consent	Fees set to cover costs on fee recovery or in line with legislation.
Micro Chipping	Discretionary fee set to cover costs and encourage users of the new service	Charges in line with policy.

Environmental Services

Activity	Policy	Proposal
Cemetery Fees (Spalding Special Expenses)	Fees are reviewed annually and set by the Council, taking into account the sensitive nature of this service	No change for 2017-18
Allotments (Spalding Special Expenses)	Charges to be in line with those charged in the neighbouring area	No change for 2017-18
Provision of Markets	Fees to be in-line with those charged in the neighbouring area	No change for 2017-18
Car Parking Charges	Service to breakeven over a 4 year period and make a contribution to the Replacement and Refurbishment Reserve	No change for 2017-18
Bus Departure Charges	Charges to bus operators only	No change for 2017-18
Excess Charges	Fees to be set as a deterrent	No change to fees proposed, in line with car park charges.
Garden Waste Sacks	Maximise income without encouraging fly tipping	No change to fees.
Bulky Waste	Maximise income without encouraging fly tipping	No change to fees.
Charges for street scene fines	Charges for fines listed for each offence	Set to cover costs. Includes dropping of litter

Garden Waste	One year pilot agreed during 2015-16 Set to cover costs and make a small surplus to be reinvested in the project. Now extended	Fees agreed as per the cabinet report. An annual charge of £49 for 24 collections and a one off charge initially offered at £15 (for delivery, repairs, loan of bin, newsletters and offers)

Community Development

Activity	Policy	Proposal
Ayscoughfee Gardens (Tennis, Putting and Bowls) (Spalding Special Expenses)	To increase charges in line with inflation and review annually	No change to fees.
Ayscoughfee Hall Museum	To cover costs and match competitor prices	Existing fees assessed and revised where appropriate. New public events to be booked on 'price on application' basis.
South Holland Centre	To meet income targets whilst enabling maximum community use of the Centre.	Increase in cinema charges (2D Family Ticket) by 5%, no other changes to fees.
Halley Stewart Playing Field (Spalding Special Expenses)	To increase charges in line with inflation and review annually	Increased proposed in respect of SUFC.
Castle Field	To increase charges in line with inflation and review annually	No change to fees.
Monks House Playing Field (Spalding Special Expenses)	To increase charges in line with inflation and review annually	No change to fees.
Castle Sports Complex and Swimming Pool	Review annually with contractor	No change to fees.

Assets and Property

Activity	Policy	Proposal
Industrial Units	A phased approach to increasing fees and charges was approved, in two lots of 3 years, spreading over 6 years in total	No change to fees for 2017 18. In line with market competitors

Planning and Building Control

Activity	Policy	Proposal
Land Charges	Charge in line with competitors	No change to fees and charges
Building Control	Charge based on hourly rate to reflect the actual cost of each project.	Charges based on hourly rate, to cover costs incurred by the Council.
High Hedges	Charge set by ourselves	Proposal to maintain our charge to encourage submissions.
Building Control Consultancy	These are set by us, at a cost per project as per the new fee regulations which are based on hourly rates, as per CIPFA guidance. Charges based on amount per m2, in line with the market rate activity	Fees are set by SHDC. Service to maintain charges based on a market rate.

Housing Revenue Account

Activity	Policy	Proposal
General Fund Housing Rents		Reduction of 1% in rents in line with rent setting proposals for the Housing Revenue Account.

HRA Service Charges

	Charge 2016/17 per week	Proposed Charge 2017/18 per week	% Increase
Hire of Community Centres (Per Hour) - VAT exempt			
Hire of Centre for Day Care	10.50	10.67	1.60
Hire of Centre (community rate)	10.50	10.67	1.60
Hire of Centre (commercial rate)	16.25	16.51	1.60
Charge for Hire of Kitchen at Centre	12.50	12.70	1.60
Hire of Guest Room (per night) - including VAT at Standard Rate – Tenant Guests		0.00	
- Non En suite room	16.00	16.26	1.60
- En suite room	19.00	19.30	1.60
- Homelessness	22.00	22.35	1.60
Water Charges (Per Week)			
Trinity Court – (No's 1-21)	2.13	2.18	2.50
Trinity Court – (No's 22)	2.86	2.93	2.50
Glen Haven – (No's 1-12)	2.90	2.97	2.50
Glen Haven – (6a)	3.38	3.46	2.50
Nene Court (No's 1-12, 17-22,25-30)	1.01	1.04	2.50
Nene Court (No's 23 & 24)	1.05	1.08	2.50
Nene Court (No's 13 - 16 & 31 - 34)	1.19	1.22	2.50
Heating Charges (Per Week)			
Glen Haven (No's 1 - 12)	10.32	10.49	1.60
Glen Haven (6a)	12.01	12.20	1.60
Nene Court (No's 1-12, 17-22,25-30)	3.80	3.86	1.60
Nene Court (No's 23 & 24)	3.94	4.00	1.60
Nene Court (No's 13 - 16 & 31 - 34)	4.50	4.57	1.60
Supply and Fit Replacement lock with keys – including VAT at Standard Rate		0.00	
	62	62.99	1.60
Supply and Fit Key Safe – including VAT at Standard Rate		0.00	
	50	50.80	1.60
Supply and Fit Door Chain – including VAT at Standard Rate		0.00	
	41	41.66	1.60
- Urgent Replacement (1 key)	22	22.35	1.60
- Urgent Replacement (2 keys)	31	31.50	1.60
- Non-Urgent Replacement (1 key or more each key)	11	11.18	1.60

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SOUTH HOLLAND DISTRICT COUNCIL

Report of:	**Portfolio Holder – Finance and the Executive Director – Commercialisation**
To:	**Cabinet – 14 February 2017**
Author:	**Christine Marshall – Executive Director – Commercialisation**
Subject:	**Welland Homes Financial Model**
Purpose:	**To consider a financial model for Welland Homes Limited (Welland Homes).**

Recommendations:

1) That the Capital Programme, included as Appendix E to the draft Budget, Medium Term Plan and Capital Strategy Report to Council on 22 February 2017, considered as Item 8 on this agenda, be amended to reflect the amended programme set out in paragraph 4.10.2.

2) That the 2017/18 Treasury Management Strategy, included as Appendix G to the draft Budget, Medium Term Plan and Capital Strategy Report to Council on 22 February 2017, considered as Item 8 on this agenda, be amended to reflect the changes set out in paragraph 4.13.3.

Recommendations to Council:

3) That the amendment to the Welland Homes Interim Business Case, as detailed in this report, be approved.

4) To reaffirm the delegated authority, granted by Council on 25 March 2015, to the Executive Director - Commercialisation (the S151 Officer), to approve the final mix of use of reserves and borrowing in line with the business plan and Council Treasury Management Strategy.

5) That delegated authority be granted to the Executive Director - Commercialisation (the S151 Officer), to approve the terms of any loan agreements required.

6) That the Council reverts back to the original 2016/17 Treasury Management Strategy approved by Council on 24 February 2016 with immediate effect but keeps the CCLA instant access money market fund counterparty limit at £10m rather than original £5m.

1.0 PURPOSE OF REPORT

1.1 To provide an update on the Welland Homes Business Case financial modelling. This update specifically relates to the acquisition of housing investment properties from 3rd parties for the purposes of market rent.

1.2 To approve the capitalisation and borrowing required and its structure so that the necessary loan agreements and supporting finance can then be progressed. This will support the proposed programme of acquisitions and enable the agreed rental schemes to proceed.

1.3 To provide an update on the state aid position and to give an informal position from our auditors on this.

1.4 To review the short term treasury management policy currently in place in light of clarity over this matter.

2.0 BACKGROUND

2.1 Welland Homes is the Council's wholly owned housing development company, established in July 2015 to support the delivery of a range of much needed housing solutions across the district. The original business plan for the company focuses on the following main strands of activity:

- **Holding private rented housing as an investment asset.** By utilising a company structure, the Council is able to invest in private rented housing through Welland Homes Ltd, the Council is able to help bridge a gap in the housing market and thereby help to meet local demand – whilst at the same time making effective use of capital to achieve better returns.
- **Building new homes for both market sale and rent.** In addition to being a holding vehicle, Welland Homes is also a delivery vehicle. Utilising a commissioning approach and 'design and build contracts' to bring about development, Welland Homes is presently taking forward two sites for market housing for sale and rent, totalling 34 homes (subject to planning).

2.2 An initial six sites were identified as the development focus for the company and these were centric to the initial business case approved by Council in 2014. However, a number of constraints around these sites subsequently emerged, resulting in an inability to deliver a number of the approved component parts of the original approved business plan.

2.3 In July 2016 an updated Interim Business Plan was approved by Cabinet. This identified that since the original business plan was approved, the Council's need for affordable rented stock had increased significantly due to:

- replacements needed as a result of a re-invigorated 'Right to Buy' programme, and
- changes to national government policy, which place an heightened need within stock holding local authorities to increase their asset base.

2.4 Given the uncertainty around the scale of the future housing delivery requirement for the district, the Interim Business Plan was developed to enable "us to focus on what we do know" and fast track delivery of some new housing whilst the emerging details of future development requirements are understood.

2.5 The interim business plan proposed agreement for the development and/or acquisition of a total of 82 homes across four sites with:

- Two site to be developed by Welland Homes for market sale and rent, subject to planning,
- The acquisition of £3m in new build units 'off plan' for market rent, and
- A new approach to development on behalf of the Council's HRA to be achieved via a delivery arrangement where the Council commissions the work (for its HRA) directly from Welland Homes; whilst retaining directly the ownership of land and associated uplifts in land values as a result of any planning approvals which may be secured. This gives the Council a route to increase its HRA stock at lower cost than the alternative acquisition at open market value. The first such development proposed for this route is the redevelopment of council owned land and assets at Small Drove, Weston with a view to facilitate a development of between 25 and 35 new affordable homes (subject to planning) for the benefit of the Council's Housing Revenue Account.

2.6 The interim business plan also provided an opportunity to test the various development activity streams within the company. The individual streams were to be the focus of the company in the immediate future following July 2016 to allow separate projects to run in parallel providing a fast tracked mechanism for delivery in a risk managed controlled and structured way.

2.7 The activity identified for the period of this Interim Business Plan is summarised by project below:

- Site 1 (Severn Road Spalding) – 24 homes, 12 HRA, 12 retained by Welland Homes for market sale/rent,
- Site 2 (Parkside Crescent, Spalding) – 9 homes retained by Welland Homes for market sale/rent,
- Site 3 (Small Drove Weston,) - 34 homes phased development on behalf of the Council, and
- Site 4 (Green Lane Spalding) – 15 market rent homes acquired and retained by Welland Homes.

2.8 To support this activity the Interim Business Plan proposed that the initial allocation of £2.5million for the acquisition and holding of residential investment property be increased to a maximum of £3million.

3. CURRENT ISSUES

3.1 Since the approval of the Interim Business Case significant progress has been made, although a number of immediate issues now need to be addressed:

- the role of Welland Homes as part of the Council's need to increase the delivery of appropriate affordable housing,
- the need to ensure that the Welland Homes Business Plan is sustainable, and
- that contractual arrangements between the Council and Welland Homes are compliant with State Aid Regulations.

3.2 State Aid

3.2.1 In establishing contractual arrangements with Welland Homes the Council needs to ensure that both parties are compliant with the relevant legislation and regulations.

3.2.2 The provision of a loan by the Council to a wholly owned housing subsidiary may constitute State Aid according to Article 107 of the Treaty on the Function of the European Union (TFEU) if as a result of this; the Company obtains an economic advantage.

3.2.3 However, if the terms of the loan are comparable to terms that would be offered by a private investor, operating under normal market economy conditions, such a loan would be in line with the Market Economy Investor Principle (MEIP) and would not constitute State Aid.

3.2.4 The Interim Business Plan assumes that all Welland Homes Investments would be funded through 100% borrowing.

3.2.5 The Council has sought advice from external lawyers and from KPMG on this subject based on the Interim Business Plan. It is clear that, in order to maintain the assumed interest rate level in the current Business Plan, there needs to a gearing of equity investment to lending. KPMG advise that the equity element of capital funding should equate to around 35%.

3.2.6 The proposals set out in this report therefore seek to implement funding arrangements that will ensure that the Council and the Company are State Aid compliant.

3.3 **Green Lane, Spalding**

3.3.1 Welland Homes Limited is contractually committed to purchase 15 properties in Green Lane Spalding in March 2017. In view of this fast approaching deadline, to which the Company is contractually committed, an urgent decision is required to enable capitalisation of the company.

4. INTERIM BUSINESS PLAN - UPDATE

4.1 Given the uncertainty over the future delivery vehicle(s) for housing in South Holland, the need to ensure State Aid compliance and the imminent purchase of properties within Green Lane the whole Welland Homes business case needs to be reviewed.

4.2 Going forward, it is assumed that a substantial component of the business activity of Welland Homes will be that as a holding and investment vehicle for private rented housing. This revenue generating activity will be central to covering core costs and allowing the company to trade, in addition to providing a sustainable platform from which other housing-related opportunities can be pursued (e.g. housing development activity etc.).

4.3 In the immediate short term clarity around the sustainability of Welland Homes is required. This update therefore sets out the level of investment necessary to sustain Welland Homes as a holding vehicle under terms compliant with State Aid regulations.

4.4 In order to determine the updated baseline business case, a revised model has been created. The model is based on the core costs of the business and has been used to determine the level of activity required to generate the required returns.

4.5 The investment proposed will deliver approximately 60 additional properties by 31st March 2022:

- Completion of Green Lane (15 units) in March 2017,
- Completion of Long Sutton (5 Units) by March 2018, and
- 4 additional schemes of 10 units, with 1 completed each year up to 2021/22.

4.6 The model is based on a number of assumptions which are set out in detail in Confidential Appendix 1. Key assumptions are that the Council will provide equity in respect of set up costs/cash flow and 35% of the cost of individual schemes with the balance (65%) funded by Welland Homes borrowing from the Council (with the interest rate in the current model then being unchanged).

4.7 The assumptions built into the model are prudent and are designed to ensure a sustainable business model. In particular:

- annual repairs and maintenance costs are assumed at £750 per property from year one, and
- no assumption has been made about rent increases outstripping cost inflation.

4.8 All assumptions regarding costs and income will be reviewed on an ongoing basis as schemes are completed and units let. If actual costs are lower than current projections and rental returns improve this will improve the overall yield. In particular, assumptions around rent levels will be reviewed following the completion and letting of the Green Lane Scheme as there is initial evidence that it may be possible to overachieve the rents assumed, 4.9 **Welland Homes Impact**

4.9.1 The projected impact on Welland Homes is set out in Confidential Appendix 2.

4.10 **Council Impact**

4.10.1 The property numbers and financial implications reflected within this paragraph only include properties purchased by the Company and held for Private Rented Housing. The detailed projected financial impact on the Council is set out in Confidential Appendix 3 with key elements summarised below.

4.10.2 Based on 65% gearing the total Council Capital Programme Investment required to deliver 6 schemes (60 properties) is estimated at £3.007m over the period 2016-17 to 2021-22, an increase of £0.956m over the draft capital programme included within the Draft Medium Term Financial Plan (Item 8 on this agenda):

	Current Programme £000	**Amended Programme £000**
2016-17	931	858
2017-18	1,120	241
2018-19	-	477
2019-20	-	477
2020-21	-	477
2021-22	-	477
	2,051	**3,007**

4.10.3 The current modelling assumes that the Council's Equity Investment in Welland Homes will be funded through internal borrowing. While the base rate is so low this will mean that the Council can achieve a higher rate of interest from Welland Homes than by investing elsewhere. However, as this is a long term investment there is a risk that if the base rate increases the opportunity cost of this internal borrowing could increase. To mitigate this risk the Council could choose to fund this investment through a long term PWLB loan.

4.10.4 The original business plan was approved by the Council on 25th March 2015 with delegated authority to the S151 Officer to approve the final mix of use of reserves and borrowing in line with the business plan and Council Treasury Management Strategy. This delegation now needs to be re-affirmed to reflect this update to the Interim Business Plan.

4.10.5 Revenue savings of over £0.325m per year will be achieved by 2021-22 as a result of this investment.

4.10.6 The Council will also receive indirect contributions through New Homes Bonus and as a result of an increased Council Tax Base.

4.11 **Loan Notes**

4.11.1 The element of funding that comprises a loan or loans will be subject a formal loan agreement or agreements which may be protected by way of a charge against the company's assets generally (a floating charge) or against specific assets. It is suggested that the s151 Officer be authorised to approve the terms of any such agreement.

4.12 **External Evaluation of Business Model**

4.12.1 The updated Interim Business Plan has been developed taking into account informal advice received from our external auditors. However, the legislation and regulations applying to areas such as State Aid, Corporation Tax and Value Added Tax are extremely complex. The modelling completed and assumptions made will therefore be subject to external evaluation before any loan agreements are completed.

4.13 **Treasury Management Implications**

4.13.1 No borrowing has been undertaken since the business plan was approved and the updated interim business plan assumes all funding will be from existing council reserves.

4.13.2 The current lack of clarity over the level and timing of future investment requirements has led to a position where the Council's Interim Treasury Management Strategy for 2016/17 only allows short term lending for up to a month at a time – so that cash flow resources are available if required for Welland Homes. The rates of interest receivable on this basis tend to be uncompetitive (usually less than 0.25%) leading to a shortfall in interest earned against budget in 2016/17.

4.13.3 To reflect the recommendations set out within this report the Council's 2017/18 Treasury Management Strategy, included as Appendix G to Item 8 on this agenda (The Council's Budget and Medium Term Financial Plan) now needs to be updated to reflect the change in the capital programme set out in para 4.10.2 and the subsequent impact on capital financing and expected investment levels.

4.13.4 It is also recommended that the Council reverts back to the original 2016/17 Treasury Management Strategy approved by Council on 24th February 2016 with immediate effect but keeps the CCLA instant access money market fund counterparty limit at £10m rather than original £5m.

4.14 **Wider Business Case Review**

4.14.1 In addition to the 60 investment properties addressed in this update, the 2 development schemes being pursued by Welland Homes are now moving through the planning process. These schemes will be subject to a detailed financial viability appraisal when a competitive tendering exercise has been completed. Pending the outcome of this exercise it may be necessary to revisit the overall Business Case.

5. OPTIONS

5.1 **Do Nothing**

5.1.1 Whilst this option would provide time to consider the Business Case, it would in the meantime limit the delivery of housing from Welland Homes under the existing business plan and leave the Company unable to meet its contractual commitments re Green Lane.

5.2 **Agree an update to the Interim Business Case**

5.2.1 This has the advantage of securing quick delivery of some important projects, enabling further consideration of a longer term business case for the company once detailed analyses of the impact of imminent changes to the housing landscape have been considered alongside all options for securing delivery of housing in greater numbers.

6. REASONS FOR RECOMMENDATIONS

6.1 An update to the interim business plan provides the best delivery option during a period of uncertainty in relation to the future scale of development required.

7. EXPECTED BENEFITS

7.1 This update to the amended business case will deliver 60 private rented properties by 2021/22 and support the delivery of savings targets set out in the Councils Medium Term Financial Plan.

8. IMPLICATIONS

8.1 **Constitution & Legal**

8.1.1 Whilst operational matters in respect of the company are executive functions, the changes proposed to the business plan result in a need to change the budget. As a result, the final decision is reserved to Council.

8.1.2 The key legal issues have been considered at each stage of the project, and have been reported to the Cabinet and Council previously. The key legal issue affecting this report is of state aid, and that issue is dealt with in the body of the report.

8.1.3 The proposed interim business plan is consistent with the agreed objectives of the development company.

8.2 **Contracts**

8.2.1 There will be a number of contractual arrangements between the Council and the Company – examples being in terms of services delivered to the Company by the Council, to the Council by the Company and in terms of the loan agreement(s).

8.3 **Corporate Priorities**

8.3.1 This update to the interim business plan meets the council's medium term financial plan and commitment to housing and growth in the district.

8.4 **Financial**

8.4.1 This is a financial report with detailed financial implications set out in the body of the report.

8.5 **Reputational**

8.5.1 Successful delivery of properties through Welland Homes Limited is very important to the Council not only in terms of its corporate objectives, but also reputationally.

8.6 **Risk Management**

8.6.1 The approach set out in the interim business plan will be underpinned by strong risk management. The interim business plan provides reduced risk to the council that the original business plan by giving greater certainty and increased contributions to the council.

8.6.2 It should be noted that the value of the residential assets held may go up or down in line with market forces.

8.7 **Stakeholders / Consultation / Timescales**

8.7.1 All housing development will be subject to the appropriate consultation processes

9. WARDS/COMMUNITIES AFFECTED

9.1 All as the Growth agenda is extended

10. ACRONYMS

TFEU - Treaty on the Function of the European Union
MEIP - Market Economy Investor Principle
CCLA – Churches, Charities & Local Authorities
HRA – Housing Revenue Account
PWLB – Public Works Loan Board
GF – General Fund
NHB – New Homes Bonus

Background papers:-

Draft Housing Company Business Plan

Interim Business Case

Lead Contact Officer
Name and Post: Mark Astbury - Interim Chief Accountant
Telephone Number: 01775 764684
Email: mastbury@sholland.gov.uk

Key Decision: No
Exempt Decision: No

Confidential Appendices attached to this report:

Appendix 1 - Key assumptions supporting financial modelling
Appendix 2 - Financial Impact on Welland Homes Limited
Appendix 3 - Financial impact on the Council

SOUTH HOLLAND DISTRICT COUNCIL

Report of:	**Portfolio Holder – Strategy, Governance and Transformation and the Executive Director - Commercialisation**
To:	**Cabinet - 14 February 2017**
Author:	**Christine Marshall – Executive Director Commercialisation**
Subject:	**Project Board for the Community Hub Project**
Purpose:	**To recommend to Cabinet the formation of a sub-committee of Cabinet to oversee the Priory Road Community Hub Project.**

Recommendations:

1) That a sub-committee of 3 members of the Cabinet be established, to oversee the Priory Road Community Hub Project.
2) The sub-committee be delegated authority and powers as set out in Appendix B, working within the Council's policy framework and approved budget.
3) That the sub-committee of Cabinet is operational for the life of the Priory Road Community Hub Project.
4) That the sub-committee shall invite in other Members and Officers, external parties/advisors to contribute in an advisory supporting role as required.

1.0 BACKGROUND

1.1 As part of South Holland's Medium Term Financial Plan 2015/16 – 2019/20, key strategic site projects were identified and approved by Members in October 2015, to be taken forward as part of the Council's overall Moving Forward Programme. One of the key sites relates to the Council Offices, Priory Road Spalding.

1.2 An outline business case is being developed to look at the options around creating a Community Hub at the Council Office Priory Road, with the next stage requiring greater analysis around delivery, design, procurement and finances.

1.3 The final outline business case will contain a range of options for Council to consider, and will be presented to Council at the Full Council meeting of 5 April 2017. The business case will be considered by Cabinet before Council.

1.4 The business case will highlight interdependencies of the project that directly relate to the successful delivery of the project, some of which focus on design and delivery of the concept of the Community Hub, and others which are commercially sensitive and as such at this stage cannot be referenced.

1.5 The report to be taken to Full Council will build upon the initial inception and design phase of the current draft of the business case, as it will enable more detailed financial modelling to be undertaken, although this will not prejudge any potential decisions that will ultimately be made by Full Council.

1.6 One of the major interdependencies of the project relates to delivery time frames where potential stakeholders have expressed an interest in colocation at Priory Road. To facilitate colocation there is a need to start preparatory design work, consider the delivery plan and establish a procurement process, so that should the Priory Road business case be approved, the foundations to deliver are in place and work can start in a timely manner.

1.7 Given the complexity of the project, it is recommended that this activity starts within the next few weeks and is overseen and monitored through the formation of a sub–committee of Cabinet.

1.8 In summary, it is essential that members are able to provide oversight and steer of this important corporate project in its formative stages of design and work up. This aims to ensure that contractors, project managers and related support can commence as soon as the project is given authority to proceed, due to the challenging timelines. In these initial stages the work will be funded from the budget already set aside within the Moving Forward project.

2.0 OPTIONS

2.1 **Option 1 - Do nothing.** The risk of doing nothing and not changing the approach to how the project is overseen and delivered is to increase the pressure to deliver to key milestones and puts at risk any potential interest of stakeholders being co-located at Priory Road.

2.2 **Option 2 - Establish a sub-committee of Cabinet.** To establish a sub-committee of Cabinet to oversee the Priory Road Community Hub Project. The sub-committee will function through delegated powers from Cabinet as set out at Appendix B and make decisions that are of an executive nature to progress the project further.

2.3 The sub-committee will:

a. Work within established budgets.
b. Meet regularly and as required to facilitate delivery of the project and will follow the same rules as the Cabinet Committee process, in terms of publishing the agenda at least 5 clear days before the meeting and minutes being produced
c. Be able to ask other Elected Members and Officers, advisors/experts to be invited to attend the sub-committee in an advisory supporting role as required.
d. Have such level of delegated authority as the Cabinet may approve.

3.0 REASONS FOR RECOMMENDATIONS

3.1 The formation of a sub–committee of Cabinet to act as an Executive Delivery Board for the life span of the Community Hub Project will provide a robust governance framework, facilitate efficient decision making and will help to minimise risk to the delivery of the project to set timescales and within agreed budgets.

4.0 EXPECTED BENEFITS

4.1 The primary benefit of a sub-committee of Cabinet will be having a governance structure in place that monitors delivery of a key strategic project, as well as being responsive in terms of being able to make executive decisions in a timely and proactive way, that minimises risks of delivery both in terms of time and cost.

5.0 **IMPLICATIONS**

5.1 **Carbon Footprint / Environmental Issues**

5.1.1 It is the opinion of the report author that there are no specific implications relating to carbon footprint and/or environmental issues at this stage.

5.1.2 It is envisaged that that these factors will be considered as part of the refurbishment process.

5.2 **Constitution & Legal**

5.2.1 The law and the Council's Constitution allow executive decisions to be delegated to a sub-committee of Cabinet.

5.3 **Contracts**

5.3.1 SCAPE Group Ltd is a procurement and minor construction framework that is currently being utilised to develop further more detailed designs for a Community Hub concept is a procurement and minor construction framework that is currently being utilised to develop further more detailed designs for a Community Hub concept; undertake an analysis of the implications around delivery mechanisms; resourcing; financing construction costs, as well as assessing the feasibility of delivering a ground floor Community Hub by November 2017.

5.3.2 No contractual arrangements are in place as the SCAPE Framework operates on the principle of an access agreement. However activity around design, delivery and financial modelling will need to be completed between now and Full Council in April, to enable a contract to be signed in a timely manner, should the business case be approved.

5.4 **Corporate Priorities**

5.4.1 It is the opinion of the report author that there is an interdependency linked to the corporate priorities at this stage. The main priority focuses on providing the right services, at the right time, in the right way.

5.5 **Crime and Disorder**

5.5.1 It is the opinion of the report author that there is no impact from this report relating to crime and disorder.

5.6 **Equality and Diversity / Human Rights**

5.6.1 It is the opinion of the report author that there is no immediate impact as a result of this report.

5.6.2 Each phase of delivery in its own right will have an equality impact assessment undertaken as required.

5.7 **Financial**

5.7.1 The business case for a Priory Road Community Hub will include financial modelling and a breakdown of costs and expected financial benefits.

5.7.2 Priory Road is included in the Moving Forward Programme which was approved by Council on 14 October 2015 within the Aligning Public Services strategic theme.

5.7.3 Funding will be accessed through the Moving Forward Programme's Budget.

5.8 **Health & Wellbeing**

5.8.1 The creation of a Community Hub within Priory Road that has partners co-locating will create a central location for the residents of the community providing a better user experience. The Community Hub will reduce the time delay that can be experienced between partners with regards to sharing of information and potential duplication of processes as the same enquiry is relayed several times before resolution can be sought.

5.9 **Reputation**

5.9.1 The recommended development of Priory Road in a timely manner, working in partnership with other key public sector organisations would have a positive reputational impact for the Council.

5.10 **Risk Management**

5.10.1 The sub-committee that is being proposed will help off-set the risks associated with the timeline and pace with which this project needs to proceed. Early oversight and engagement by members will help facilitate the decision making process as the project moves forward.

5.10.2 The risk of doing nothing may lead to the Council not being able to react in a timely manner to partners requirements that are emerging and this will reduce the opportunity of creating a Community Hub and potential income streams/reduced costs.

5.11 **Staffing**

5.11.1 Successful delivery of this strategic site will require dedicated resource and a dedicated Project Manager with the necessary skill sets. It will be agreed by the Priory Road sub-committee when this resource is needed.

5.11.2 Programme Management for the delivery of the site will be resourced through South Holland's Programme Delivery Manager over the medium term for continuity of delivery.

5.12 **Stakeholders / Consultation / Timescales**

5.12.1 Stakeholder management will be a key component surrounding the delivery of this site and a communications plan for the project will be developed.

5.12.2 Timescales for any stakeholder engagement will be time-tabled as part of the engagement, design and delivery plan.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 Not applicable.

7.0 **ACRONYMS**

7.1 None

Background papers:-	None

Lead Contact Officer

Name and Post:	Jenny Stephens Programme Delivery Manager.
Telephone Number:	Direct Line 07870835231.
Email:	Jenny.Stephens@breckland-sholland.gov.uk

Key Decision: No

Exempt Decision: No

This report refers to a Discretionary Service

Appendices attached to this report:

Appendix A	Governance Framework
Appendix B	Terms of Reference

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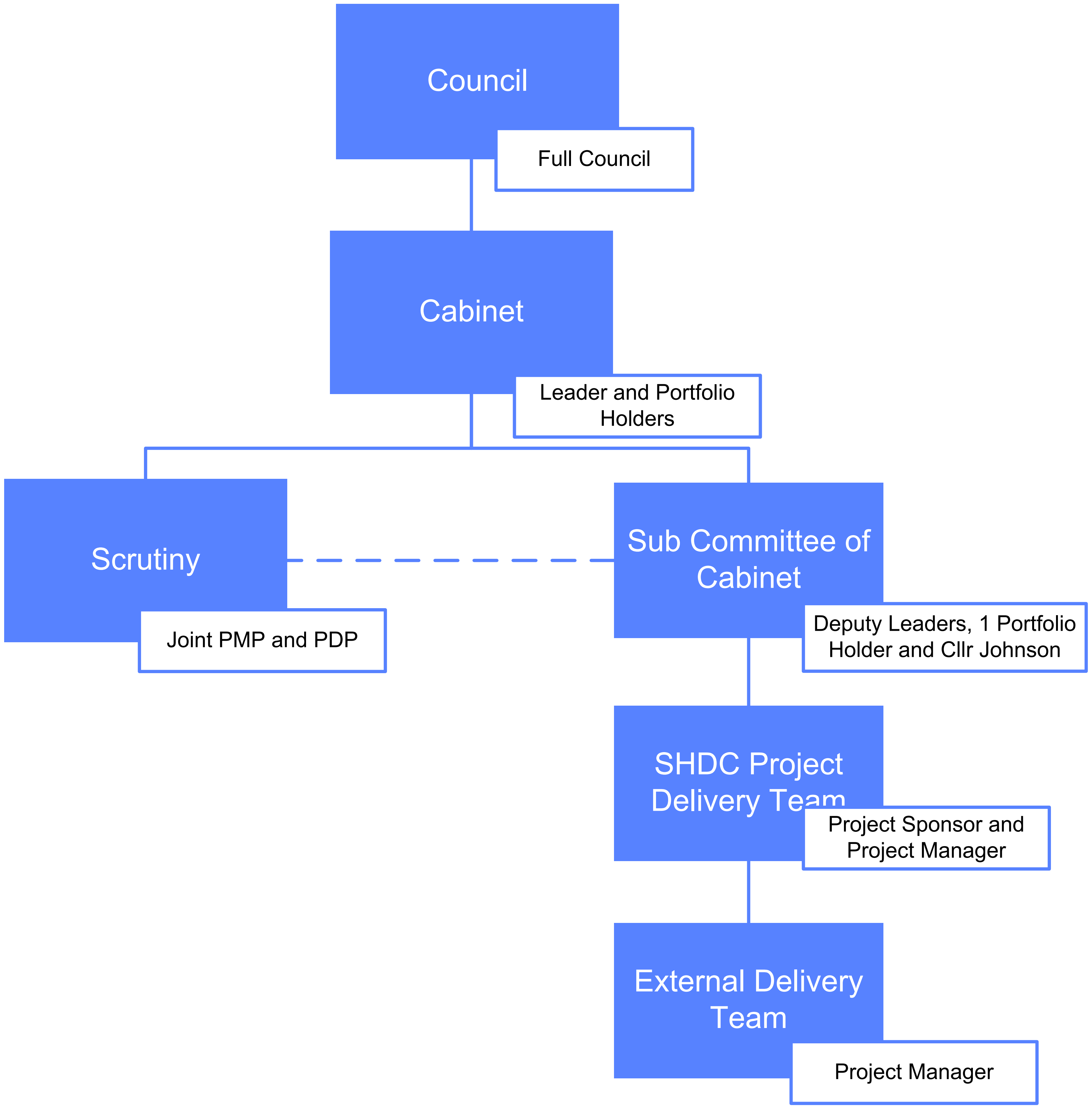
Appendix A

Proposed Priory Road Governance Feb 17



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Appendix B

Sub-committee of Cabinet - Priory Road Community Hub Project Terms of Reference - February 2017

1. Membership

1.1 Membership of the sub-committee of Cabinet shall consist of three Cabinet Members.

1.2 The sub-committee will be chaired by the Deputy Leader, Portfolio Holder for Strategy, Governance and Transformation. In their absence the sub-committee will be chaired by the Deputy Leader, Portfolio Holder for Growth and Commercialisation. The third member will be the Portfolio Holder for Communities and Facilities. In addition, the Cabinet Support Member for Strategy, Governance and Transformation will provide advisory member support to the sub-committee.

1.3 Substitutes for Cabinet Members may be used by substituting other Cabinet Members, as long as there is a minimum of three Cabinet Members in attendance.

1.4 Other Elected Members and Officers may be invited to attend the sub-committee in an advisory capacity.

1.5 The Chief Executive Officer, Executive Directors and other key Officers will support the sub-committee.

1.6 Internal and external delivery teams will be established to deliver the procurement, design and delivery stages. Specialist knowledge and skillsets within these project delivery teams will be utilised in an advisory capacity by the sub-committee and invited to attend sub-committee meetings as required.

2. Purpose

2.1 The sub-committee's role will be to provide strategic steer and monitoring for the Priory Road Community Hub project, to ensure that the Council achieves delivery both in terms of envisaged timeframes as well as approved Budgets.

2.2 The focus will centre on design, procurement, delivery resources, financial management and actual delivery through an agreed framework.

3. Meetings

3.1 The sub-committee will meet regularly, as required, and will follow the same rules as the Cabinet Committee process, in terms of publishing the agenda at least 5 clear days before the meeting with minutes being produced.

4. Reporting and Governance.

4.1 The ongoing delivery of the project will still be reported through existing committee process as required.

4.2 Decisions that are outside of the authority of the sub-committee and project board will be referred to the relevant committee for decision as per the council's constitution.

4.3 Progress of the project will be reported to the sub-committee through regular highlight reports.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13.

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