

# Report

## Council

---



### Part 1

Date: 24<sup>th</sup> February 2016

Item No: Please see above

### Subject **2016/17 Budget and Medium Term Financial Plan**

**Purpose** To agree the Council's 2016/17 overall revenue budget and the resulting Council Tax resolution, 2016/17 capital budget, the Council's Treasury Management Strategy, Investment Strategy, Minimum Revenue Provision policy and Prudential Indicators as recommended by Cabinet on 15th February, 2016.

**Author** Head of Finance

**Ward** All

**Summary** Following recommendation by Cabinet, the Council needs to make decisions on:

- the level of Council Tax and overall revenue and capital budgets;
- the Council's Treasury Management and Investment strategies; and
- Minimum Revenue Provision policy and Prudential Indicators.

Cabinet met on the 15th February and finalised detailed budget recommendations plus the various Treasury Management strategies and policies outlined above. This paper shows the 2016/17 detailed budget proposals, resulting service cash limits, council tax increase and recommendations for the Council's general reserve and contingencies. An increase in council tax of 3.90% (£36.59 per annum at Band D) for Newport City Council is recommended.

The Cabinet have built on the Medium Term Financial Plan approved last February and approved further savings to meet the increased financial challenges facing the Council. The programmes are fully outlined within the Medium Term Financial Plan (MTFP), (Appendix 8).

Based on these Change and Efficiency Programmes, Cabinet has taken a strategic and medium term approach and agreed all investment and saving proposals over the life of the current MTFP, together with the final 2 years of the current Capital programme. Council is asked to note this decision.

**Proposal** That Council:

#### **Revenue budget and Council Tax 16/17 (paragraphs 4-32)**

- Note that an extensive consultation exercise has been completed on the medium term change/efficiency programme, including the 2016/17 budget proposals and that Cabinet have taken these into account in recommending final details of the programme and the resulting 2016/17 overall revenue budget recommended to this Council.

- Note the Head of Finance's recommendations that minimum General Fund Balances be maintained at £5million, with the actual in place currently being £8.93m
- Note that, in line with the requirements of the Local Government Act 2003, the Head of Finance confirms the robustness of the estimates underlying the proposals and the adequacy of the General Reserves in the context of other earmarked reserves and a revenue budget contingency of c£1,500k
- Approve the total revenue budget, shown in Appendix 1
- Approve a Council Tax increase for Newport City Council of 3.90%, a band D tax of £974.61
- Approve the formal Council Tax resolution, included in Appendix 5 which incorporates Police and Crime Commissioner for Gwent & Community Council precepts

#### **Capital Programme and 2016/17 budget (paragraphs 37–50)**

- Approve the 2016/17 capital budget, in line with the detail contained in Appendix 6

#### **Treasury Management and Investment strategies, Minimum Revenue Provision Policies & Prudential Indicators (paragraphs 51-71)**

- To approve Treasury Management Policies in line with the detail contained in Appendix 7
- To approve the Annual Investment Strategy in line with the detail contained in Appendix 7
- To approve the Council's Counterparty list (external bodies for Council investments) in line with the detail contained in Appendix 7
- To approve the Prudential Indicators in line with the detail contained in Appendix 7
- To approve the Minimum Revenue Provision policy in line with the detail contained in Appendix 7

#### **Medium Term Financial Plan and Capital programme (paragraphs 1 – 3 and 37 - 50)**

- To note Cabinets approval of the implementation of the full 4 year change and efficiency programme, including all budget investments and saving options (Appendices 2 - 3), as summarised within the Medium Term Financial Plan (Appendix 8) and the final 2 years of the capital programme (Appendix 6). Noting they are subject to on-going review and updating.

**Action by** Head of Finance – prepare 2016/17 Council Tax billing and Newport City Council detailed budgets in line with recommendation

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Executive / Corporate Directors
- Head of Law & Standards
- Head of People & Business Change

## **Background**

## **A 'joined up approach'**

1. The Council is required to approve an overall total budget and resulting Council Tax level for 2016/17 and the proposed budget is attached at Appendix 1. Cabinet is responsible for the detailed spending plans of the budget, the total budget is based on detailed proposals reported to Cabinet on 15<sup>th</sup> February 2016 and shared with Members via the Council's Scrutiny Committees in January 2016.
2. As in prior years, and in line with best practice, we are asking Council to consider the key budget issues together and:
  - agree the overall revenue & capital budget and resulting Council Tax; and
  - agree the Council's treasury management and investment strategies, minimum revenue provision policy and its prudential indicators.
3. As last year, Council should note that Cabinet continue to take a strategic and medium term view and agreed the implementation of the Council's 4 year change and efficiency programme, including all budget investments and saving options, as summarised within the Medium Term Financial Plan and the full 2 remaining years of the Capital Programme. Noting that these plans are subject to on-going review and updating.

## **THE COUNCIL'S 2016/17 REVENUE BUDGET AND COUNCIL TAX**

4. During the Summer and Autumn of 2015, Cabinet Members and Directors / Heads of Service developed a detailed update to the existing change and efficiency programme with a range of new proposals with associated business cases. Considerable 'budget conversations', building on the extensive exercise carried out for the current year's budget was undertaken
5. The resulting budget proposals agreed by Cabinet in December have also been consulted on as follows:
  - With Trade Unions via the Employee Joint Liaison Group (EJLG) meetings on 14th January 2016. The Unison and GMB unions separately responded with observations.
  - With all Overview and Scrutiny Committees in their January 2016 meetings where Members discussed the detailed change and efficiency programmes plus the Medium Term Financial Plan.
  - With the Schools' Forum on 12<sup>th</sup> January 2016.
  - With the public.
  - The Council's Fairness Commission.
  - With representatives from the business and voluntary sector on 4<sup>th</sup> February.
6. Details of the consultation responses were included in the Cabinet report on the 15<sup>th</sup> February 2016 and considered by Cabinet in finalising the details of the budget proposals for this Council meeting along with their Equality Impact Assessments.

## **The proposed budget 2016/17**

7. The starting point for the 2016/17 budget is the current year's budget. Whilst it is a challenging year, most services, with the exception of Social Care are currently forecasting to operate close to or under their approved budget. Notwithstanding this, regular budget monitoring has identified a number of base budget issues that require adjustment in 2016/17 and beyond and where required these have been included in service pressures / investment proposals agreed by Cabinet.
8. Funding levels for Service Areas based on the draft proposals are shown in Appendix 1 with the detailed budget investments and savings shown in Appendix 2 and 3 respectively. Proposals include c£10.55m of budget investments / pressures over and above the costs of inflation. The most significant area of additional expenditure are linked to:

- c£1,200k of funding to implement the UK Government National Living Wage policy in 2016/17, with a further c£2,100k required thereafter to fully implement. This relates to the Council's external social care costs to meet their higher costs as they implement this.
  - £2,800k of funding to meet the costs of increased 'Employer National Insurance' rates, following the UK Government policy change which stopped rebates given to those employers with contracted out pension schemes.
  - £280k of funding to implement the WG Welsh Language Act standards.
  - £230k of funding for increased costs as capacity is increased at the Council's Maes Ebbw Special school.
  - £2,820k increased funding for Schools, in addition to the Maes Ebbw Special school above
  - c£360k of funding to meet adult social services demographic and transition pressures
  - c£430k of additional funding for increasing children's social care costs.
9. As is the case each year, the Welsh Government (WG) transfers some specific grants into the Council's overall grant settlement. The proposals make the assumption that these are included in those Service Area budgets which were funded from the specific grants. This allows continuation of those services in the first year. Service funding levels in Appendix 1 reflect these changes.
10. In addition, significant specific grants are received from WG each year and at this time we still await the finer details of funding levels for 2016/17. It is highly probable that we will see decreases in some of these grants. It is proposed, in line with the Council's current working policy here that Service Areas deal with these matters with Cabinet Members in terms of identifying issues as they become aware of them and developing necessary solutions to resolve them. This may involve reducing / stopping services that WG specific grants no longer fund.
11. The need to identify a significant level of savings to balance the budget, both for 2016/17 and the next three years was recognised at the early stages of budget preparation and a robust process has identified new savings of c£9.3m of savings over the 4 years, of which c£7m is for 2016/17. These are in addition to already agreed savings of c£3.6m of savings over the next 4 years, of which just under c£1.7m is for 2016/17. The savings are shown in Appendix 3

As has been the case in previous years, the need to find savings has come mainly from increasing cost pressures and investments as opposed to WG grant reductions. This grant has only decreased, in cash terms, in the current 15/16 year and a small reduction now in 16/17, and actually increased slightly each year prior to 15/16. However, as noted in those years, the annual increases were nowhere near enough to cover annual inflationary pressures, let alone the cost pressures on the budget and therefore further savings had to be found even in those years. Future years where, in cash terms, the grant is also now potentially reducing adds further challenge than in previous years.

12. Cabinet considered the schools' funding position in its December 2015 meeting and again in the February 2016 meeting, following consultation. Cabinet's decision here will see school's budget increase by c£3.0m, or 3.5% increase from current levels. Whilst there is no formal WG pledge now in place for schools funding, this decision is far more generous than the c1.85% that a 'pledge' would have required. The pressures on school budgets was outlined to Cabinet in December and it showed, even after the additional funding allocated in February Cabinet, that school's will need to find savings to balance budgets in 2016/17 given spending pressures on 'teachers pensions' and 'National Insurance contribution' increases in 2016/17. Notwithstanding this, this increase is one of, if not the most generous settlements in the Gwent area and across Wales and is a continuation of relatively good funding settlements to school budgets over the last few years.

### **The grant settlement (RSG) and Tax Base**

13. The finance settlement from WG is important to the financial position of the Authority making up 83% of its net budget funding. The UK Government's Spending Review in the Autumn 2015 has meant that WG only notified Local Council's with their draft budget settlements on 9th December

2015 and the final settlement is not due to be received until 2<sup>nd</sup> March, 2016. For the first time, the Council will set a budget and propose a Council Tax before the final grant settlement is known. This is entirely within their legal powers and this therefore represents a potential 'budget risk' which requires managing. More detail on this is included within the section on reserves below in para. 17 – 27 below. A small correction to the original draft settlement was recently provided by WG, which gave a small increase to the funding by £9k. In saying this, all the relevant data required for the final settlement was included within the draft settlement, therefore there are no expected changes to the final settlement.

14. Councils must set Council Tax on or before 11<sup>th</sup> March each year but, in practical terms, to delay much beyond this meeting date would cause delays to billing and collection of Council Tax. This would have a significant adverse impact on the Council's cash-flow. There is ample mitigation against the potential risk of the final settlement value changing within the revenue contingency budget and therefore this should not unduly hinder or delay a decision on setting Council Tax.
15. The final budget here is therefore based on the draft RSG settlement of £209.1m, which represents a 0.7% decrease in cash funding from the current year level, after taking account of specific grant transfers into the settlement.
16. The tax base is the estimated number of Band D equivalent properties within the city. As this number increases, it generates additional income through Council Tax but a reduction is made to the Council's settlement from WG if any increase is disproportionate to average increases across Wales and this adjustment is included in the draft settlement figure, as noted above. An allowance for the increased costs of benefits is also required. For 2016/17, the tax base is 56,145.64 (2015/16 - 55,560.04.)

#### **General and Specific Reserves, Contingencies and Financial Risks**

17. The proposed budget incorporates a number of assumptions in terms of likely levels of income and expenditure in future years. There are therefore inevitably a number of financial risks inherent in the proposed budget. The key financial risks are highlighted below:
18. Any overspend in 2015/16 over and above the revenue contingency budget would be an issue. However, no overspend is currently forecasted and the revenue budget contingency is not earmarked for any specific issues at this time. In saying that, there are a number of significant base budget pressures and overspends in the current 2015/16 year and these have been considered alongside the challenging savings targets for 2016/17. Additional significant budget capacity has been provided where it has been deemed necessary.
19. Saving proposals and additional income proposals in this report amount to approximately £8.6m and will need to be delivered in order to achieve a balanced outturn for 2016/17. This will result in implementation costs and inevitable financial risk around full delivery of all savings. Realistic part year assumptions have been made where implementation cannot be immediate but there is an inherent financial risk around achieving changes in time to deliver the planned savings.
20. Inflationary increases in budgets have been set at a low level, consistent with most other local authorities. Invariably, this introduces a degree of financial risk as key inflationary pressures are not known with certainty at this time but this financial risk is no higher than in any other year. In particular, any risk here in the area of 'pay inflation', being the highest risk value potentially, is covered by the Council's 'Pay Reserve'
21. In terms of any contingencies and reserves, the Head of Finance needs to review these in their totality in conjunction with the base budget itself and the financial risks which face the Authority. In addition, this review should incorporate a medium term view where needed and should take into account key developments that may impact on the need for and use of one off resources. In these respects, Cabinet will be aware that the current base budget has a c£1.5million contingency budget.

22. In light of the financial risks highlighted above, a robust view is being taken on managing budget risks and protecting the financial health of the Council. In that respect, the Council's financial resilience is a key consideration and Appendix 9 shows the current 'snapshot' of key data and information here, alongside the current position on the Council's reserves.
23. The financial resilience 'snapshot' shows that the Council is mitigating potential risks through a number of avenues, there are sufficient levels of general reserves discussed further below, and there are a number of earmarked reserves which are set aside to mitigate against specific risks such as the insurance reserve and capital expenditure reserve. In addition to this, included within the Council's balance sheet, are cash-backed provisions, which are included to fund other specific risks.

There are also earmarked reserves set aside which are set aside to fund expected future increases in costs for projects and a reserve is set aside for the smoothing of the funding of these, the most significant example being the Private Finance Initiative reserves. These contribute to a strong balance sheet position that is shown in the 'snapshot'.

24. The Council has also been able to show strong financial control and has managed within its budget over a number of years, despite the high level of savings. This is projected to be the case for 2015/16 again which is summarised in the financial resilience 'snapshot' appendix.
25. A 'rule of thumb' analysis for determining the level of general reserves suggests this is at least 5% of net revenue expenditure (excluding schools' budgets), unless a formal risk assessment justifies a lower level. This implies a level of c£8.7million for Newport. However, taking the approach outlined above:
  - Whilst it is accepted that as significant budget reductions are made it invariably introduces financial risks, Newport has a reputation of managing within its budget. Budget risks have been addressed in the proposals.
  - Protection against budget risks is provided through earmarked reserves and contingencies. Whilst no general revenue contingency reserves are currently held (excepting the base budget provision), the Council has a number of earmarked reserves for known but not always easily quantifiable financial risks.

26. In the context of the above and the financial risks inherent in the proposed budget, it is recommended that the minimum level of general reserves remain at £5million, supported by the base budget contingency of £1.5m. As shown in Appendix 9, the current level is higher at £8.9m and this additional level is not considered excessive given the on-going austerity and uncertainty on future funding, both for 2016/17 as the Council awaits the final WG grant settlement and the medium term funding support, with no forward settlement indicated by WG.
27. The base budget contingency built into the budget, alongside the level of recommended general and earmarked reserves reflect the overall potential financial risk associated with delivering the budget proposals in 2016/17. With general reserves, this provides sufficient capacity to cover financial risks. In light of this approach, the Head of Finance, as part of his S151 responsibilities, is content that the 2016/17 budget as proposed is robust.

### **Proposed Budget & Newport Council Tax Level**

28. Newport continues to have the second lowest Council Tax in Wales and amongst the lowest in the UK and significantly spends lower than its SSA compared with other Local Authorities. Whilst changes in Council Tax levels are usually noted in percentage terms, the cash increase this delivers in Newport will be smaller against other Local Authorities as our starting point is lower in the first place.

29. Based on a 5% (maximum before risking 'capping' by WG) Council Tax, the table overleaf compared the available and required budget funding which Cabinet considered at its meeting on 15<sup>th</sup> February 2016.

The table below shows the available and required budget funding with a 5% increase in Council Tax. In setting Council Tax, the Council needs to be aware of the need to set a balanced budget.	<b>5% Increase</b>
<b>Council Tax at Band D at 5%</b>	£984.92
<b>Budget requirement</b>	<b>£000</b>
Base Budget 2015/16	261,370
Inflation & Re-pricing adjustments	1,887
<b>BASE BUDGET 2016/17 (before investments/savings)</b>	<b>263,257</b>
Budget investments – (£10,449k shown in list of pressures plus increase of £732k required in Council Tax Benefit based on 5% Council Tax increase)	11,181
Budget savings (£8,647k shown in list of savings plus £1,900k 'technical saving')	10,547
<b>DRAFT BASE BUDGET 2016/17</b>	<b>263,891</b>
<b>Funding available</b>	
Draft WG Settlement	209,142
Current Council Tax at new tax base	52,666
Increased Council Tax @ 5%	2,633
<b>Total</b>	<b>264,441</b>
<b>Balance available 'in hand'</b>	<b>+550k</b>

30. In recommending a final budget to Council, the Cabinet agreed the following
- Reduce Council Tax increase to 3.90%
  - Invest in business support and advice
  - Creation of an Energy Officer post
31. The final budgets, as detailed in Appendix 1, incorporate the above recommendations. In finalising the final budgets from which were consulted on, Cabinet were aware of the key messages / concerns / support coming out of the Consultation.
32. The Cabinet was also mindful of the need to balance the interests of service users with tax payers given the current economic climate and in addition, noted that the Council's element of the Council Tax, even with the increase recommended, would still be the second lowest in Wales, below other Welsh cities and well below the average for Wales.

### **Community / Police precepts and Council Tax calculation**

33. The Council Tax calculation includes precept figures from the Police and Crime Commissioner for Gwent and Community Councils within the city as well as the City Council's own budget and these are shown in Appendix 4. The resulting Council Tax Resolution is set out in Appendix 5. These are based on the budget proposals agreed by Cabinet on 15<sup>th</sup> February 2016.

## **Equalities Impact Assessments**

34. In delivering its services the Council has to be mindful of its duties to discharge its statutory obligations for Equal Pay, Disability Discrimination Act (DDA) and other equalities legislation including The Race Relations (Amendment) Act 2000 and the Equality Act 2006.
35. The Council carries out an impact assessment to identify equalities issues across the breadth of the budget as part of the MTFP and annual budget setting process to inform spending decisions. As part of the budget process, equalities implications are considered for all budget proposals and an EIA is carried out by the relevant service manager, supported by the Council's Policy team.
36. In finalising its budget proposals, Cabinet took account of the equalities impact assessments carried out, which was reported to them in their meeting on 15<sup>th</sup> February 2016.

## **THE COUNCIL'S CAPITAL BUDGET**

37. The Council's capital resources come from four main sources:
  - (i) Supported borrowing allocation from Welsh Government
  - (ii) Unsupported or "Prudential" borrowing
  - (iii) Capital receipts from the sale of Council owned assets
  - (iv) WG General Capital Grant / other external grants and contributions
38. In reality, there is little difference between (i) and (ii) as they are both 'borrowing' and the Council is required to identify a revenue budget to fund the financing costs that result from this type of capital expenditure (i.e. capital principle repayment – MRP, and interest charges).
39. In February 2014 a four-year capital programme was approved as part of the budget setting process, for the years 2014/15 to 2017/18. Over the course of 2014/15 and 2015/16, the programme evolved to reflect the requirements and priorities across the Council. New schemes were approved and added to the budget, as well as existing schemes being re-phased between financial years to reflect changes in deliverability.
40. The remaining two years of the capital programme is detailed in Appendix 6. The 2016/17 budget includes slippage that has occurred against schemes in the 2015/16 programme, based on forecast outturn as at the end of month 8. This is subject to change, as it is only when the final outturn position is confirmed at the end of March (for reporting in June) that the final slippage figures can be incorporated into the 2016/17 (and subsequent years') programme. As noted above, the programme has been recently reviewed extensively and whilst a difference will exist, it should be relatively small compared to previous years.
41. The current programme will also be subject to change over the remaining two years as new priorities emerge and successful capital bids for new schemes are added to the budget. The next capital programme commencing in 2018/19 will start being considered in due course.

## **Key schemes on-going in the current Programme**

42. The remaining two years of the programme (detailed in Appendix 6) includes the following key schemes:
  - Budgets of £15.7m relating to Welsh Medium Secondary School provision and £3.9m for Duffryn High School refurbishment remain within the Capital Programme. Following the recent decision at Planning Committee in February, the Authority is reviewing its options in relation to these projects. The Capital Programme will need to be updated once the alternative proposals have been agreed.
  - 21st Century Schools – whilst some of the strands of the Band A £15m programme have been completed (approximately £7.2m spent to date), work continues across the remaining projects with a remaining budget of £7.8m. The overall programme is 50:50 funded by WG grant and NCC capital receipts.



- Vibrant and Viable Places year 3 grant allocation of £4.365m, following on from the 2014/15 allocation of £5.822m and 2015/16 allocation of £4.111m. Underspends within each year of this grant cannot be carried forward into subsequent years unless re-profiling is agreed in advance with WG.
  - The Fleet Replacement Programme continues, with £3.5m budget available for the remaining two year programme to 2017/18. Of the original budget, approximately £2.75m has been re-profiled into the future four-year programme commencing 2018/19.
  - Annual allocations for Disabled Facility and Safety at Home Grants (£1.436m), Asset Maintenance (£1.5m), and Highways Capitalised Maintenance (£500k).
  - Amounts set aside of £3m in 2016/17 and £2.2m in 2017/18 to fund future Change/Efficiency Programme schemes.
43. The overall Capital Programme including the above schemes totals £39.8m in 2016/17 and £18.2m in 2017/18. These are funded from various sources, including Capital Grant from WG, borrowing, capital receipts, Section 106 and other contributions, revenue contributions and other external grants. This is summarised in the table in paragraph 45 below. In addition to the schemes already in the capital programme, consideration will need to be made in the near future of capital project implications of the recent developments regarding the Cardiff City Region City Deal, once commitments and approvals are confirmed. The financial commitments here are likely to be some years away at this time.
44. An amount of £5.2m remains reserved for the Change and Efficiency Programme, with individual schemes yet to be determined. This amount is a reduced amount compared to the original programme due to no requirement to spend, as highlighted in the business cases supporting the saving proposals. It remains flexible and will continue to be reviewed on an on-going basis.
45. The table below shows the current approved four-year programme compared to the proposed remaining two-year programme based on estimated 2015/16 outturn.

	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total £000's	
	<b>Outturn</b>					
Current Approved Programme as at January 2016	27,197	26,146	39,036	18,198	110,577	
Remaining Two-Year Programme to be approved February 2016	27,197	25,016*	39,763	18,198	110,174	<i>*forecast outturn</i>
<b>Change</b>	<b>0</b>	<b>-1,130</b>	<b>727</b>	<b>0</b>	<b>-403</b>	
<b>Change Funded by:</b>						
General Capital Grant	0	0	0	0	<b>0</b>	
Supported Borrowing	0	0	0	0	<b>0</b>	
Unsupported/ Prudential Borrowing	0	-729	647	0	<b>-82</b>	
Capital Receipts	0	0	0	0	<b>0</b>	
Other External Grants	0	-337	21	0	<b>-316</b>	
Revenue Contributions	0	-4	0	0	<b>-4</b>	
S106 & Other Contributions	0	-60	59	0	<b>-1</b>	
<b>Total</b>	<b>0</b>	<b>-1,130</b>	<b>727</b>	<b>0</b>	<b>-403</b>	

46. The provisional capital settlement (made up of a general cash grant of £2.479m and Supported Borrowing funding of £4.073m) for 2016/17 from Welsh Government is a small improvement on the allocations previously assumed based on 2015/16 figures. Due to uncertainty around spending plans from Central Government, WG no longer provide indicative settlement figures for the medium

term, so to be prudent for the purposes of MTFP forecasting the estimates for 2017/18 remain unchanged.

47. External grant funding continues to be an important source of funding for specific capital schemes, with the remaining two-year programme being 27% grant funded. The organisation will continue to seek opportunities to secure external funding to finance both existing schemes and new priorities that may emerge.
48. As previously agreed by Cabinet, the majority of capital receipts funding is earmarked for use on the 21<sup>st</sup> Century Schools programme (£7.5m for 'Band A' and any additional capital receipts received up to £6m for Welsh Medium Secondary subject to use of other capital reserves), as match funding against WG grant. The useable capital receipts balance at 31<sup>st</sup> March 2016 is estimated to be circa £6.5m, with a further £3.5m forecast to be received by the end of 2017/18. This forecast is clearly uncertain at the moment and will depend on the property market over the coming years, so a conservative estimate has been used to inform the funding of the remaining two-year programme in relation to 21<sup>st</sup> Century Schools.
49. While the Council is continuing its strategy of minimising its actual long term borrowing and funding as much of the capital programme via ready 'cash' sources (grants, capital receipts, contributions), it is recognised that in certain cases this may not be possible due to limited availability of cash resources. Funding capital expenditure via borrowing in a given year results in revenue cost implication beginning in the subsequent financial year. The remaining two-year programme assumes that undertaking new borrowing is unavoidable, but it should be noted that this borrowing requirement will reduce if forecasts of capital receipts are achieved/ exceeded and not used to fund further new schemes.
50. The table below shows the capital financing revenue budget required to fund the remaining two-year capital programme.

	2016/17 £000's	2017/18 £000's	2018/19 £000's	TOTAL £000's
Capital Financing Budget Required	19,958	20,408	20,693	<b>61,059</b>

## **TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATORS 2016/17**

51. The Council is involved in two types of treasury activity:
  - Borrowing long-term for capital purposes and short term for temporary cash flow
  - Investment of surplus cash
52. These activities are controlled primarily via the Council's Treasury Management Strategy and various measures and limits set via its Prudential Indicators to regulate/control the implementation of that strategy.
53. CIPFA requires local authorities to determine their Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. This requires approval by full Council following a recommendation from the Cabinet. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Welsh Government's (WG's) Investment Guidance.
54. Our detailed Treasury strategies for 2016/17 are included at Appendix 7. In addition, planned strategies to 2019/20 are also included, in line with the Council's 5 year Medium Term Plan. Key points of interest are summarised below.

### **Borrowing Strategy**

55. The Council has significant long term borrowing requirements but in recent years, the strategy has been to fund its capital expenditure from reducing investments rather than undertaking more expensive new borrowing i.e. using 'surplus cash', whenever possible. This is because the rates

achievable on the Council's investments are lower than the rates that would be payable on long-term borrowing and therefore this strategy is more cost effective.

56. In terms of the revenue budget, the Council must ensure it sets aside sums to repay capital expenditure funded from borrowing (irrespective of whether the borrowing itself is undertaken externally or through dis-investing). This is done via the 'Minimum Revenue Provision' (MRP). In addition, a budget is also needed to fund actual interest payable on loans taken out, which are based on predictions of actual external borrowing. Both are discrete budget lines in the Council's overall revenue budget.
57. Local Authorities measure their underlying need for long-term borrowing through their 'Capital Financing Requirement' (CFR). This takes into account the amount of capital expenditure that needs to be funded through borrowing, (as opposed to external funding - from cash grants, capital receipts or S106 contributions for example) irrespective of whether the borrowing itself is undertaken externally or through dis-investing.
58. In addition to normal planned capital expenditure, in December 2013 the Council approved a loan of up to £89.1million to Queensberry Real Estates (Newport) Ltd (QRE) to fund the building of the Friars Walk Development. The Council's own borrowings to make the onward loan are kept separate from the Council's other borrowing requirements as these loans are relatively short term given the loan is anticipated to be paid off in full via a capital receipt by November 2016, when the Council's own borrowings for this will then be redeemed as soon as is possible. On this basis, the Council will not be required to make MRP charges to the revenue budget in relation to the Friars Walk Development loan as the borrowing will be paid off in full at the end of the scheme via the repayment of the loan by QRE (Newport) Ltd. Loans in relation to the Friars Walk development have been taken at various stages throughout the scheme build; therefore have variable dates when the loans are redeemable. £40 million of loans are redeemable in July 2017, with the balance being taken over shorter terms, currently up to the end of April 2016. This would mean if the loan by QRE (Newport) Ltd is repaid before July 2017 the Council will have surplus funds to invest, unless we are able to redeem early at nil or minimal cost.
59. The table below shows the estimated Capital Financing Requirement/ New Net Borrowing Requirement position for Newport City Council for 2015/16 to 2018/19:

**Table 1: Newport City Council – CFR**

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
CFR	321.1	360.2	280.6	283.7	283.5
Less: Other long-term liabilities *	-51.6	-49.3	-47.4	-45.5	-43.8
<b>Borrowing CFR</b>	<b>269.5</b>	<b>310.9</b>	<b>233.2</b>	<b>238.2</b>	<b>239.7</b>
Less: External borrowing **	-190.3	-235.8	-246.6	-205.6	-204.5
<b>Internal (over) borrowing</b>	<b>79.2</b>	<b>75.1</b>	<b>-13.4</b>	<b>32.6</b>	<b>35.2</b>
Less: Usable reserves	-89.8	-83	-78	-74.2	-73.6
Less: Working capital	8	8	8	8	8
<b>Investments / (New Borrowing)</b>	<b>2.6</b>	<b>-0.1</b>	<b>83.4</b>	<b>33.6</b>	<b>30.4</b>

\*finance leases and PFI liabilities that form part of the Authority's debt

\*\* shows only loans to which the Authority is committed and excludes optional refinancing

60. As the table shows, the inherent 'need to borrow' as shown by the CFR is predicted to be £280.6 million in 2016/17. The significant reduction in the CFR between 2015/16 and 2016/17 is due to the anticipated repayment of the loan in relation to the Friars Walk development.
61. Given current borrowing levels and repayment of the QRE (Newport) loan, no additional long term borrowing is likely to be required during 2016/17. However, the Authority will be required to be

flexible to borrow up to the Authorised Limit, as there will be uncertainty to the exact timing of repayment of the outstanding loan.

62. The Authority will adopt a flexible approach to any borrowing necessary in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:
- Affordability
  - Maturity profile of existing debt
  - Interest rate and refinancing risk
  - Borrowing source

## Investment Strategy

63. The Authority holds minimal invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £0m and £25 million at any one point. In 2016/17, the investment balances could increase significantly dependent on the timing of the repayment of loans in relation to Queensberry, where a substantial receipt may be achieved in advance of borrowing required to be repaid.
64. **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses.
65. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will continue to invest in relatively secure and/or higher yielding investment classes during 2016/17. This is especially the case for any surplus funds available for investment following the repayment of the Queensberry loan, before it is used to repay its own loans for this purpose.
66. **Approved Counterparties:** Whilst investment funds remain available and based on the treasury management advice from Arlingclose; the Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown:

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	Not applicable	Not applicable	£ Unlimited 50 years	Not applicable	Not applicable
AAA	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA+	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA-	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
A+	£5m 2 years	£10m 2 years	£5m 2 years	£5m 2 years	£5m 2 years
A	£5m	£10m	£5m	£5m	£5m

	13 months	2 years	2 years	2 years	2 years
A-	£5m 6 months	£10m 13 months	£5m 2 years	£5m 13 months	£5m 2 years
BBB+	£2.5m 100 days	£5m 6 months	£2.5m 2 years	£2.5m 6 months	£2.5m 2 years
BBB	£2.5m overnight	£5.0m 100 days	Not applicable	Not applicable	Not applicable
None	£1m 6 months	Not applicable	£10m 25 years	Not applicable	Not applicable
Pooled funds	Not applicable				

67. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. Whilst the credit ratings score drives the approved listing, the day-to-day operational counterparties are generally limited to named counterparty listing as documented in Appendix 7. However, where it is prudent to do so the Authority may also use other approved investments based on the approved credit ratings as documented in the table above.
68. A more detailed explanation of the different approved counterparty types are included in Appendix 7 but for the sake of clarity, the Council's investment strategy will, as per the Welsh Government's Investment Guidance, give priority to security and liquidity and will aim to achieve a yield commensurate with these principles. Due to the expected increase in levels of surplus funds during 2016/17, the total amount invested in any individual counterparty has been increased to £10m, and the time limit increased from 6 months to 2 years. This is in line with the limits provided by our treasury advisers.

### Prudential Indicators

69. The Council must establish certain 'checks' required by CIPFA to ensure that its Treasury Management Strategy is operating effectively. These are known as Prudential Indicators, and they will be reported to the Council on a 6 monthly basis.
70. Examples of our key indicators are noted below; again more detail is supplied at Appendix 7

### Net Borrowing/Capital Financing Requirement

71. The Council's net borrowing should not exceed its Capital Financing Requirements as outlined earlier. This ensures that borrowing is only used to finance capital over the long term. The Council does not note any difficulty in meeting this requirement.

### Financing Costs to Net Revenue Stream

72. This ratio shows how much of the Council's total revenue budget is used for capital financing costs, as a percentage. The ratio for 2016/17 is 8.8%.

### Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Budget savings not delivered	H	L	(i) robust budget monitoring (ii) service planning (iii) retention of reserves and budget contingency	Head of Finance Heads of Service

Budget savings not delivered on time leading to in year overspending	H	M	(i) robust budget monitoring (ii) retention of reserves and budget contingency	Directors / Heads of Service Head of Finance
Unforeseen Pressures	H	L	(i) retention of reserves and budget contingency (ii) robust budget review	Head of Finance Directors / Heads of Service

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

In drawing up budget proposals, due regard has been given to key Council policies and priorities and Cabinet, in setting the detailed budget and spending plans, considered these in detail in their February meeting. Details are included in the February 2016 budget paper which conform that the new Council Improvement Plan objectives are funded appropriately to meet the targets proposed.

### Options Available

The Council must agree a recommended Council Tax and 2016/17 and resulting overall revenue budget and capital budget, plus the Council's Treasury and Investment strategies and prudential indicators.

### Preferred Option and Why

Council has various options open to them on the level of Council Tax and therefore the overall total revenue budget for the Council.

### Comments of Chief Financial Officer

The financial implications stemming from this report are contained within the body of the report

The Council is required to set Council Tax by 11<sup>th</sup> March and whilst the final revenue support grant is not confirmed until 2<sup>nd</sup> March; after this meeting; the risk of this changing from current draft figures are very small and this risk is mitigated by the Council's revenue contingency budget, as well as the general reserve. The Council can set Council Tax before notification of its final grant settlement.

Indeed, if a decision on Council Tax is delayed, then it could well have a significant adverse impact on the Councils cash-flow's as billing will be delayed. Therefore, it is recommended that the Council decides on the level of Council Tax at this meeting.

### Comments of Monitoring Officer

The Revenue Budget Report has been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance with Section 25 of the 2003 Act, the Council must have regard to the advice of the Head of Finance, as the Chief Finance Officer, regarding the robustness of the budget estimates and the adequacy of the financial reserves. This advice must be taken into account when considering the proposals in the Report and the recommendations from the Cabinet regarding the budget and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. In accordance with Section 30 of the 1992 Act, the Council is required to set the Council tax for the next financial year on or before 11th March. However, the Council is only empowered to set the budget framework and the Council tax rate. Expenditure within the budget framework and the implementation of any requisite savings or re-provision of services are executive decisions for the Cabinet and Cabinet Members. Therefore, Cabinet is able to approve the 4 year programme as set out in the MTFP, subject to future budget decisions.

### Staffing Implications: Comments of Head of People and Business Change

The change and efficiency programme outlined in the report will have a direct impact on employees across the Council, including, potentially, schools. Changes to structures and staffing will be required to make the necessary savings. This programme will be supported through Human Resources, ensuring

that the Council's services are financially sustainable into the future and continue to deliver high quality to Newport's citizens. The change programme will need to incorporate meaningful consultation with trade unions and affected employees and this has already commenced.

The Council will aim to minimise the impact of the budget proposals on employees across our services, and a number of actions are currently being undertaken to assist in this e.g. restrictions on recruitment, reduction in use of agency staffing and overtime. However, given the scale of the challenges facing the Council over the next 5 years, it has to be recognised that the Council cannot rule out having to make redundancies. All employees directly affected will be supported by the provisions of the Council's Job Security Policy, which aims to minimise compulsory redundancies and retain employees in our employment wherever possible.

### **Comments of Cabinet Member**

The Chair of Cabinet, as the Lead Member for strategic resources planning and management confirms he has seen and approved this report.

### **Local issues**

The budget proposals as shown affect the city as a whole although some specific proposals may affect certain localities more than others

### **Scrutiny Committees**

All detailed proposals were reviewed by all Scrutiny Committees in their January 2016 meetings, as part of the wider budget proposals consultation undertaken and considered by Cabinet.

### **Equalities Impact Assessment**

In finalising its budget proposals, Cabinet took account of the equalities impact assessments carried out, which was reported to them in their meeting on 15<sup>th</sup> February, 2016.

### **Children and Families (Wales) Measure**

Wide consultation on the budget has been undertaken, as outlined in paragraph 4 of the report

### **Consultation**

Wide consultation on the budget has been undertaken, as outlined in paragraph 4 of the report

### **Background Papers**

Cabinet report on budget February 15<sup>th</sup>, 2016.

### **Appendices**

- Appendix 1 Service Area Budgets
- Appendix 2 Budget Investments
- Appendix 3 Budget Savings
- Appendix 4 Precepts / Council Tax
- Appendix 5 Resolution to Set Council Tax Levels
- Appendix 6 Capital programme/budget 2016/17 and 2017/18
- Appendix 7 Treasury Management Strategy and Prudential Indicators
- Appendix 8 MTFP
- Appendix 9 Projected 2016/17 Financial Resilience, Earmarked Reserves & Summary of 'Invest to Save' spend and Forecast

Dated:

## Appendix 1 – Service Area Budgets

Summary Revenue Budget		
2016-17	2015/16 Current Budget	2016/17 Base Budget
	£'000	£'000
<b>PEOPLE</b>		
Children & Young People	20,089	21,084
Adult & Community Services	38,548	39,676
Education	13,721	13,869
Schools	86,784	89,835
	<b>159,142</b>	<b>164,464</b>
<b>PLACE</b>		
Regeneration, Investment & Housing	9,431	9,100
Streetscene & City Services	17,519	17,092
	<b>26,950</b>	<b>26,192</b>
<b>CHIEF EXECUTIVE</b>		
Directorate	578	552
Finance	2,709	2,678
People & Business Change	6,411	6,371
Law & Regeneration	6,493	6,474
	<b>16,191</b>	<b>16,075</b>
<b>CAPITAL FINANCING COSTS &amp; INTEREST</b>		
Capital Financing Costs MRP	10,813	10,813
Interest Payable	10,786	9,145
Interest Receivable	(778)	(37)
PFI Grants	8,139	8,261
	<b>28,960</b>	<b>28,182</b>
<b>SUB TOTAL - SERVICE/CAPITAL FINANCING</b>	<b>231,243</b>	<b>234,913</b>
<b>CONTINGENCY PROVISIONS</b>		
General Contingency	1,473	1,473
Centralised Insurance Fund	570	570
Non Departmental Costs	5	5
Other Income & Expenditure	3,117	3,761
	<b>5,165</b>	<b>5,809</b>
<b>LEVIES / OTHER</b>		
Discontinued Operations - pensions	1,772	1,790
Discontinued Operations - Ex Gratia Payments	2	2
Levies - Drainage Board, Fire service etc	8,310	8,210
Non distributed grants	(1,476)	-
CTAX Benefit Rebates	11,436	11,735
Charity Rate Relief	76	37
	<b>20,120</b>	<b>21,774</b>
<b>TRANSFERS TO/FROM RESERVES</b>		
Base budget - Planned Transfers to/(from) Reserves	4,842	1,442
	<b>4,842</b>	<b>1,442</b>
<b>TOTAL</b>	<b>261,370</b>	<b>263,938</b>
<b>Funded by</b>		
WAG funding (RSG & NNDR)	(209,254)	(209,142)
Council Tax	(52,116)	(54,720)
Council Tax Surplus		(76)
<b>TOTAL</b>	<b>-</b>	<b>-</b>



## Appendix 2 – Budget Investments

			16/17	17/18	18/19	19/20
Unique ID	Service Group	Description	£'000	£'000	£'000	£'000
<b>PEOPLE</b>						
1	Education	<b>Maes Ebbw Special School</b> - capacity building through Capital investment. Revenue consequences of Capital Bid being presented to cater for additional staffing with regard to the creation of additional Capacity proposed to be created at the school, and the ability to take further additional pupils over above current levels. The current position within the school is it has capacity for 100 pupils, but at the present time has 124 pupils on site. The capital bid, which is to be submitted for 6 additional classrooms at £2.3m will give capacity at 148, allowing the school to safely deliver education to those currently on site, and allow additional known demand to be catered on site. The revenue consequences of the development is additional staffing of 6 Teachers and 12 Teaching assistants at total cost of £550k, of which circa £100k can be found from within current ISB resources when pupils move, and a further £180k from anticipated savings falling out of a schools reorganisation programme to be finalised during the current MTFP process. Therefore the revenue burden sits at £270k over two years.	230	40		
2	Social Services- Adults	<b>Transitions</b> - Children due to turn 18 that are in the children with disabilities team (CDT) and are therefore likely to go into the adult social care system. This is worked out based on the full year cost of 4 children at the current package cost within Children's services. Not all LAC's who turn 18 would apply here, only those in the CDT.	238	57	50	
3	Social Services - Children's	<b>Kinship</b> - There have been increases of children being granted Special Guardianship Orders of around 25% per year, for the last couple of years. Based on reviewing these trends and current numbers, these pressures are needed until the situation plateaus in the years to come.	266	206		
4	Social Services - Children's	<b>Out of Area Residential Placements</b> - Based on an age profile showing children turning 18 and a trend analysis of the likely number of new cases, gives rise to this budgetary pressure. The trend shows changes each year, with a total of £20k pressure over the 4 years.	168	23	-335	164

Unique ID	Service Group	Description	16/17	17/18	18/19	19/20
			£'000	£'000	£'000	£'000
5	Social Services - Children's	<b>Gwent Safeguarding Children's &amp; Adults Board</b> - Grant funded until 15/16, this funding has now stopped, meaning LA's have to fund the cost of this regional service being provided.	63			
6	Social Services - Children's	<b>Out of Area Residential (unachieved project)</b> - Peopletoo in partnership with the service, reviewed every contract with providers for Out of Area Residential placements, with a view to making savings. It has been reported through the relevant project groups that the savings are not achievable for 15/16 and 16/17.	100			
7	Social Services - Children's	<b>Youth Offending Service</b> - In response to inspection report, additional resource is needed to implement recommendations and a reduction in the YJB grant in 15/16 has also increased this pressure.	87			
<b>PLACE</b>						
8	Streetscene & City Services	<b>Project Team</b> - Many of the posts within the projects team were capital dependent and as the major schemes reduced the level of income significantly reduced. A strategic decision was taken to restructure the team resulting in 3 voluntary redundancies. The historical income pressure has been compounded by the restructure due to lost opportunity/ capacity within the team to generate income. Savings target has been included within the Streetscene transformation project for delivery.	216			
9	Streetscene & City Services	<b>Cemeteries</b> - Shortfall against income targets. Savings target has been included within the Streetscene transformation project for delivery.	50			

Unique ID	Service Group	Description	16/17	17/18	18/19	19/20
			£'000	£'000	£'000	£'000
10	Streetscene & City Services	<b>Green Waste winter collections</b> - As part of the 15/16 MTFP £375k was accepted as a supported pressure to maintain the recycling targets that are imposed upon the Authority by Welsh Government. The £375k already took into account the fact that the green waste collections would cease in winter months. As the £140k was included as an additional saving this is not achievable on the basis that it was already accounted for. Savings target has been included within the Streetscene transformation project for delivery.	140			
11	Streetscene & City Services	<b>City Centre Fountains</b> - On-going cleaning and maintenance costs associated with the switching on of the fountains. The level of vandalism may well increase this budget pressure.	30			
12	Regeneration, Investment & Housing	<b>Reduction in Community Learning Grant (WG) &amp; Funding from Coleg Gwent</b> - Community learning income target of £1.35m has until now contributed a surplus of £122k. The 15/16 grant reduced by £393k and as a result the service is having to cut back on activity. Due to such significant funding reductions it is no longer possible to generate this surplus.	122			
<b>NON-SERVICE</b>						
13	Non-Service	<b>National Minimum Wage</b> - Subject to significant uncertainty but preliminary work confirms that increase in cost to our contractors will be very substantial. Further work on-going to be complete by mid-December.	1,207	741	695	664
14	Non-Service	<b>Welsh Language Standard</b> - Minimum budget to adhere to the new welsh language standards from April 16	280			
15	Non-Service	The employer's pension contribution rates for deficit recovery is increasing to reflect actuarial valuations	170	177		
16	Non-Service	<b>Grants transferred into settlement</b> – In relation to Outcome Agreement Grant that has been transferred into the Aggregate External Financing grant from Welsh Government	1,531			

Unique ID	Service Group	Description	16/17	17/18	18/19	19/20
			£'000	£'000	£'000	£'000
29	Social Services	To fund current existing budget pressures within Social Services in relation to Community Care	303			
30	Streetscene & City Services	<b>City Centre parking</b> - short term funding to tackle city centre parking problems via investment in on-going enforcement via Gwent Police whilst longer term solution is investigated and implemented.	34			
31	Streetscene & City Services	<b>Maintenance</b> - Additional budgets to fund maintenance of areas such as infrastructure/city centre/highways	350			
32	Streetscene & City Services	<b>Waste Grant</b> - to mitigate the impact of the anticipated reduction in the Waste Grant	110			
33	Regeneration, Investment & Housing	<b>Rough Sleeping</b> - to secure existing accommodation or to find alternative housing provision within the city. The financial support will also be utilised to assist individuals who are either sleeping rough or who are at risk of rough sleeping.	25			
34	Regeneration, Investment & Housing	<b>Energy Officer</b> – To have a focussed approach to energy e.g. consumption, purchase, generation and opportunity for new business and employment	44			
35	Regeneration, Investment & Housing	<b>Fund for Businesses in Newport</b> – build on growth by assisting new start-up businesses and encourage more local SME growth by introducing a new “small business growth fund”.	60			
<b>NEW INVESTMENT TOTAL</b>			<b>5,824</b>	<b>1,244</b>	<b>410</b>	<b>828</b>

Agreed/Revised Investments

Unique ID	Service Group	Description	16/17	17/18	18/19	19/20
			£'000	£'000	£'000	£'000
<b>PEOPLE</b>						
18	Education	<b>3 and 4 Year Olds</b> - The expansion of the Welsh Government Flying Start initiative, coupled with the general increase in population and the Local Authorities development of additional Nursery provision means that from 2017/2018 additional funding is required to meet additional capacity needs.		40	40	
19	Education	<b>Secondary School Demographics</b> - net increase for 2016/2017 financial year and beyond. Snapshot taken of known position at 6th March 2015. The figures show increases of 28, 81, 121, and 335 for 2016/2017 to 2019/2020 respectively into the system. For 16/17 & 17/18 proposal is to limit schools to cash limit of 15/16 budget, therefore no pressures included for these years.	520		266	786
20	Education	<b>Primary School Demographics</b> - net increase between primary and nursery pupils for 2016/2017 financial year and beyond. Snapshot taken of known position at 6th March 2015. The figures show increases of 298, 209, 258, and 367 for 2016/2017 to 2019/2020 respectively into the system. For 16/17 & 17/18 proposal is to limit schools to cash limit of 15/16 budget, therefore no pressures included for these years.			462	650
21	Social Services	<b>Adults - Demographic Growth.</b> Funding based on current trends and demographic forecasts.	121	137	157	169
22	Social Services - Children's	<b>New legislation/Regulation - Fostering 'When I'm Ready'</b> - This is an amendment to a line in the last agreed MTFP, where some costs can now be estimated. There are changes to legislation regarding support for foster children up to the age of 25. We are still awaiting final guidance on this but these calculations are based on foster carers receiving the WG minimum allowance for 16-18 year olds until the age of 25, assuming that all children as they turn 18 are included. These can be children from Independent Fostering Agencies, Out of Area Residential Placements and in house looked after children.	106	236	210	205

Unique ID	Service Group	Description	16/17	17/18	18/19	19/20
			£'000	£'000	£'000	£'000
<b>NON-SERVICE</b>						
23	Non-Service	<b>Total Reward</b> - The Council's proposed new pay and grading structure and allowances framework, utilises the £3,750k budgeted for this project by April 2015. As staff move through their pay scales in subsequent 3 years, it will generate 'incremental' pay budget pressure. An additional estimated allowance for turnover has also been made.	1,087	1,025	777	
24	Non-Service	<b>Increase in National Insurance rates</b> following changes to regulations linked to 'contracted out' schemes such as the LGPS	2,800			
25	Non-Service	<b>Auto enrolment in Pension scheme</b> Newport's staging date will be somewhere between 1st April and 30th June 2013. Staff earning over £8,105 will automatically be enrolled into a pension scheme for one month and will then have the ability to opt out of the scheme. Assuming all classes of employee currently not in a pension scheme stayed enrolled the maximum employers contribution (LGPS existing scheme) will cost £1.618m per annum. However it is assumed for budget purposes that only permanent staff will potentially stay in the scheme and that there will be minimal take up from Casual, Fixed Term, Seasonal, Sessional, and Temporary staff. It is not possible to assess how many permanent staff will remain in the pension scheme but it is felt prudent to make budget provision for 50% of this potential cost which equates to £0.507m.	95	110		
26	Non-Service	<b>Other pressures' - To Be Identified</b> as annual detailed budget work undertaken - there is normally miscellaneous budget pressures identified. This amount here provides an 'allowance' for this - so that the overall budget gap in each year takes account of some amount for this.		400	400	400
27	Non-Service	<b>SDR PFI Scheme</b> Interest payable on SDR PFI reserve to maintain ability to fund future costs when annual PFI grant lower than costs.				

Unique ID	Service Group	Description	16/17	17/18	18/19	19/20
			£'000	£'000	£'000	£'000
28	Non-Service	<b>Capital programme MRP / Interest</b> Costs of capital programme MTFP/ interest, following a review of the programme in Sept/Oct 2014 and subsequent re-phasing of projects.			285	
<b>AGREED/REVISED INVESTMENT TOTAL</b>			<b>4,729</b>	<b>1,948</b>	<b>2,597</b>	<b>2,210</b>
<b>BUDGET INVESTMENT TOTAL</b>			<b>10,553</b>	<b>3,192</b>	<b>3,007</b>	<b>3,038</b>

### Appendix 3 – Budget Savings

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
<b>PEOPLE</b>							
SSA10	Adult & Community Services	<b>Telecare</b> - Review Telecare operation and charges by seeking the most effective and efficient way of providing this important and essential service for the citizens of Newport.	0	78			1
SSA11	Adult & Community Services	<b>Modernisation of Transport Provision</b>	0	104			0
CFS01	Children & Young People Services	<b>To close Brynglas bungalow children's residential unit and sell excess capacity to neighbouring local authorities</b>	0	594			10
CFS03	Children & Young People Services	<b>Reduction in Social Worker posts</b>	0	144	144		7
CFS07	Children & Young People Services	<b>Reduction in Voluntary Sector Contracts</b>	23	23			0
<b>PLACE</b>							
STS01	Street Scene	<b>Bus routes - Removal of financial support on evenings and Sundays</b>	0	69			0
STS18	Street Scene	<b>Street Cleansing - review and restructure of services</b> - Revise street cleansing provision across the City including cleanliness based assessment. Changes to working hours of operatives by introducing a four day working over a seven day week	250				10



Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
STS20	Street Scene	<b>Grounds Maintenance Service Review</b> - Reduce the number of grass cuts throughout the City from 8 to 6 with the exception of visibility splays, schools contracts and leisure facilities	136				2
STS26	Street Scene	<b>Waste - Review of charging for special collections</b> - Review of charging for special collections - apply a new pricing mechanism to ensure the minimum charge covers the operating and disposal costs of the service.	0	44			0
RIH18	RIH	<b>Restructure of the Council's core-funded Youth Service</b>	100				4
<b>CORPORATE</b>							
CSDI013	CS & DI	<b>Review of service delivery model and management saving</b> - To review the service delivery model for IT and determine if partnership working would deliver a more resilient, cost effective and sustainable service.	70				2
LR01	Law & Standards	<b>Members Neighbourhood Allowances</b> - Cease the Members Neighbourhood Allowance fund for voluntary and community groups within wards.	25				0
PBC06	People & Business Change	<b>Reduction in the overall budget allocated through grants to voluntary sector organisations</b> - The re-commissioning of voluntary sector organisation provision	0	63			0
<b>NON-SERVICE</b>							
NON001	Non-Service	<b>Council Tax Rebate Scheme Budget Reduction</b>	300				0
NON002	Non-Service	<b>Invest to Save Reserve</b> - Cease the annual revenue contribution to the Invest to Save Reserve	950				0

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
NON004	Non-Service	<b>Minimum Revenue Provision / Interest Budget Reduction -</b> Following review of budgets a reduction of budgets across Capital and Interest Payable budgets is achievable	900				0
<b>NEW BUDGET SAVINGS TOTAL</b>			<b>2,754</b>	<b>1,120</b>	<b>144</b>	<b>-</b>	<b>57.5</b>

## New Budget Savings implemented under delegated authority

### Head of Service

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
<b>PEOPLE</b>							
SSA04	Adult & Community Services	<b>Review of Double Handling Cases</b> - Review and reduce the number of calls to service users that require 2 care workers.	300				0
SSA07	Adult & Community Services	<b>Day Services Budget Reduction</b> - Reduce supplies and services budget.	30				0
SSA13	Adult & Community Services	<b>Active Living - Continuation of the 2015/16 Project Work</b> - Transforming care and assessment which to achieve efficiencies in adult social care by reducing the number and size of packages of care through filtering out inappropriate referrals at first point of contact	120				0
SSA15	Adult & Community Services	<b>Frailty Budget</b> - Additional contribution from the combined Gwent frailty budget	157				0
CFS04	Children & Young People Services	<b>Budget Reductions</b> – Various budget reduction proposals	180				1
<b>PLACE</b>							
STS04	Street Scene	<b>Staff restructure - approved phase 1</b> - Revised tier 3 and 4 management structure within Streetscene and City Services.	42				6
STS06	Street Scene	<b>Vehicle hire - reduction of external vehicle hire by pooling and scheduling existing fleet.</b>	25				0

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
STS13	Street Scene	<b>Waste Management Restructure</b> - Revised management structure within waste operations.	55				2
STS22	Street Scene	<b>Trade Waste - review of charges and increase number of contracts</b> - To review the operation of trade waste service to increase capacity and market share of trade waste collections within Newport	50	90			0
STS27	Street Scene	<b>Newport Live Efficiencies</b> - Efficiency savings as per funding and management agreement			60	60	0
STS28	Street Scene	<b>Deletion of vacant posts: Senior Traffic, Transportation and Road Safety Officer (a 50% job share) and Civil Contingencies Assistant PE318</b>	28				0.9
RIH1	RIH	<b>Planning Application Fee Income</b> - Increase planning application fee income budget in light of application fee increase expected to be imposed by the Planning (Wales) Bill 2015. This is expected to come into effect in October 2015	71				0
RIH02	RIH	<b>Management Actions</b> – Planning Pre-Application Charges, Reduction in Pooled Admin Supplies and Services, Delete 0.4FTE of Technical Support Assistant post and deletion of vacant Planning Officer post and minor service reconfiguration.	65				1.90
RIH5	RIH	<b>Communities 4 Work</b> - ESF funding has been secured to deliver the Communities for Work programme. The staff delivering this service are currently core funded. The proposal is to move these staff from current permanent contracts to grant funded, fixed term positions	140				0

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
RIH10	RIH	<b>Removal of bad debt provision against business loans</b> - Removal bad debt provision against business loans. The take up of loans has been very limited and those currently in receipt repaying as planned therefore removing the need for this provision in future	15				0
RIH11	RIH	<b>Restructure Business Support and Inward Investment Function</b> - The proposal is to restructure the existing team to enable the Council to strengthen its role in Regeneration activity.	31	0	0	0	1
RIH12	RIH	<b>Reduction in 4th tier Managers of the Housing, Regeneration and Property Service</b>	42	0	0	0	1
RIH14	RIH	<b>Management Re-structure of Library Service</b> - Review the senior management structure within library services and reduce elements of the supplies budget.	73				1
<b>CORPORATE</b>							
CSDI001	CS & DI	<b>Supplies and Services</b> - Reduction in supplies and services budget following the move to Information Station and relating channel shift activity	13				0
CSDI003	CS & DI	<b>Information Technology – Desktop IT, extend PC/laptop refresh cycle</b> - Reduce budget for annual desktop PC/ laptop refresh - increasing refresh cycle to 5 years	40				0
CSDI004	CS & DI	<b>Changes to encryption software resulting in reduced licence costs over a three year period</b>	15				0

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
CSDI005	CS & DI	<b>Increase street naming and numbering income targets</b> - Increase the income target for new developments for street naming and numbering in line with likely developments in the city.	13				0
CSDI006	CS & DI	<b>Remove budget held for PSN charges</b> - Remove the budget currently held for PSN (previously GCSx) as fees continue to be funded by Welsh Government	4				0
CSDI007	CS & DI	<b>Reduce costs of postage by 7% across the Council</b> - Reduce postage budget by 7% (over a two year period) across the Council. This would be achieved through reductions in 1st class mail, maximising royal mail discounts and through the use of an automated mail service (hybrid mail solution)	10	5			0
CSDI008	CS & DI	<b>Information Management – reduced costs of document storage in Modern Records</b> - Reduce revenue budget to release savings following the implementation of Modern Records	8	3			0
CSDI009	CS & DI	<b>Information Technology – PSBA (Public Sector Broadband provision) wide area network legacy Sites</b> - Number of NCC staff in ABHB sites and have previously supplied our own Newport connections. Proposed removal of these circuits and utilise ABHB connectivity	18				0
CSDI010	CS & DI	<b>Information Technology – Supplies and Services Savings (secure email)</b> - Secure email product Egress costs reduce on an annual basis	36	29			0
CSDI011	CS & DI	<b>Information Technology – PSBA (Public Sector Broadband provision) wide area network profiled connection costs</b> - PSBA (Public Sector Broadband Aggregation) circuits. Greater Gwent Network project developed involving the provision of a new wide area network funded by Welsh Government		61	12		0

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
CSDI012	CS & DI	<b>Information Technology – change to room booking arrangements</b> - To cancel the current room / resource / car parking booking system.	4				0
LR04	Law & Standards	<b>Increased Land Charges fee income</b> - To increase the fee income projections for local land charges searches fees	25	25			0
LR05	Law & Standards	<b>Reduction of staff within Legal Services</b> - Reduction of staff within the Legal section (including two vacant post)	86	43			4
LR09	Law & Standards	<b>Deletion of Scrutiny Support Officer post</b> - To delete the post of Scrutiny Support Officer (Grade 6) and reallocate the support work for the Scrutiny Officers within the Democratic Services team.	30				1
LR12	Law & Standards	<b>Redesign of Kennel Services</b> - Redesign the service at the kennels moving it towards more of a rehoming centre which drives income to eventually pay for its self.	49	10			0
PBC02	People & Business Change	<b>Increase income generation target in Health and Safety Team</b>	25				0
PBC03	People & Business Change	<b>Reduction in Occupational Health Provision (OHP)</b> - Reduce the OHP by one day clinic per week (16 appointments per week, 800 over one year).	28				0
PBC04	People & Business Change	<b>Reduction in Organisational Development (OD) budget for training and management development</b>	19				0

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
PBC05	People & Business Change	<b>Partnership and Policy service reduction</b> - The restructure of the team meaning the removal of 1 FTE	32				1
PBC07	People & Business Change	<b>Cessation of Council's flexi-time system; Wintime</b> - To end the current contract for the Council's flexi system in January 2016 at point that current version of system is decommissioned.	16				0.5
PBC08	People & Business Change	<b>Strategic Human Resources (HR) savings proposal</b> – reduction in staffing budget of the HR service	73				2
FIN001	Finance	<b>Reduce Accountancy Assistant Posts</b> - Reduction of 2 vacant Accountancy Assistants within the structure	51				2
FIN003	Finance	<b>Council Tax Collection: Increase the budgeted amount for collection within the base budget from the financial year 2016/17</b>	76				0
NON006	Non-Service	Reduce budget for the expected decrease in the Caldicot & Wentloog Drainage Board Levy charge. This will not have an impact on service users.	95				0
<b>DELEGATED HEAD OF SERVICE BUDGET SAVING TOTAL</b>			<b>2,190</b>	<b>266</b>	<b>72</b>	<b>60</b>	<b>25.3</b>

Cabinet Member

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
<b>PEOPLE</b>							
SSA01	Adult & Community Services	<b>Appraisal of internal supported living facilities</b> - To reduce the capacity of the internal Supported Living Agency in line with the changing needs and best interest of tenants	25				1



Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
SSA02	Adult & Community Services	<b>Reassessments in Mental Health - remodel of services for people with mental health conditions</b> - Continuation of current reassessment of packages	200				0
SSA03	Adult & Community Services	<b>Promoting Independence – Learning Disability (LD) Service Development and Reviews</b>	0	531			0
SSA06	Adult & Community Services	<b>Review &amp; Reconfigure Third Sector Contracts</b> - To review contracts with third sector organisations to identify opportunities for improved delivery.	288				1
SSA12	Adult & Community Services	<b>Rationalisation of Internal Mental Health Day Service Provision.</b>	120				4
SSA14	Adult & Community Services	<b>Improving the efficiency of our Reablement and Homecare Service</b>	114	90			3
<b>PLACE</b>							
STS09	Street Scene	<b>Increased cardboard collection service to residents through Wastesavers</b> - Provision of new weekly cardboard recycling to Newport residents through Wastesavers	190				4
STS11	Street Scene	<b>Cemeteries - Review of grave digging services</b>	59				2
STS12	Street Scene	<b>Review of Park Ranger services</b> - Review of parks ranger services to achieve operational efficiencies	30				1
STS15	Street Scene	<b>Highways Operations - Multi-skilling of staff and plant and equipment review</b>	85				2
STS19	Street Scene	<b>Streetscene operations - Review supervisor staffing levels and operational bases</b>	70				2

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
STS23	Street Scene	<b>Waste - Review of special collection services</b> -To achieve service efficiencies in the operation of the special collection service provided by Streetscene	50				2
STS29	Street Scene	<b>Car parking tariffs review</b> - Proposed revision of car parking order to facilitate increases to parking tariffs and pricing structure	80				0
STS30	Street Scene	<b>Streetscene Processes Review</b> - Investigate and implement new ways of working to achieve a modern and effective service, delivering savings and efficiencies while ensuring that service capacity is maximised for the benefit of the customer and the council.	350				13
RIH6	RIH	<b>Community Development Worker</b> - Because of the creation of the new Community Regeneration department with a much larger workforce and resource budget, there is a clear expectation that reduction of one post can be made without impact to the overall service.	27				1
RIH7	RIH	<b>Community Regeneration - Youth Service operational restructure phase 1 and deletion of two youth worker posts (Voluntary Redundancy (VR) requests)</b>	127				4
RIH19	RIH	<b>Rationalisation of Housing Solutions service to strengthen front-line delivery</b> – Review and restructure of the Housing Needs Service.	20				TBC
<b>CORPORATE</b>							

Unique ID	Service Group	Proposal	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
LR08	Law & Standards	<b>Reduction in statutory enforcement work and staff within Environmental Health and Trading Standards</b>	110				3
FIN002	Finance	<b>Reduction in Internal Audit staffing resource</b>	31	26			2
FIN004	Finance	<b>Re-structure of Income Collection Team-</b> To combine the Local Taxation and Debtors teams so that management, day-to-day administration and processing work is generic across Council Tax, Non-Domestic Rates, Sundry Debt and Periodic Debt.	39				2
FIN005	Finance	<b>Reduction in Staff Numbers / Hours within Procurement and Central Payments</b>	20	27			2.4
<b>DELEGATED CABINET MEMBER BUDGET SAVINGS TOTAL</b>			<b>2,035</b>	<b>674</b>	<b>-</b>	<b>-</b>	<b>50.4</b>

SAVINGS SUMMARY

Savings Decision Type	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	Staff Impact (FTE)
New Budget Savings to be Consulted	2,754	1,120	144	-	57.5
Delegated Head of Service Budget Savings	2,190	266	72	60	25.3
Delegated Cabinet Member Budget Savings	2,035	674	-	-	50.4
Budget Savings previously agreed/revised (as per February 2015 Council Report)	1,668	987	460	450	20
<b>TOTAL BUDGET SAVINGS</b>	<b>8,647</b>	<b>3,047</b>	<b>676</b>	<b>510</b>	<b>153.2</b>

## Appendix 4 - Precepts / Council Tax

The funding required from Council Tax for the recommended draft 2016/17 budget is an increase of 3.90%. The tables below show all the figures involved in that calculation.

### **The tax base**

This is the number of properties that attract Council Tax for the year, expressed as if they were all in Band D. In practice, Band A properties only pay 66% of the Band D Council Tax whilst a Band I property pays 233% of the Band D Council Tax. For 2016/17, the tax base is 56,145.64 (2015/16 – 55,560.04).

### **Calculation of the Council Tax – Newport City Council**

The calculation of the Council Tax follows the process shown below

	<b>£000</b>
Net budget requirement	263,862
Less WAG funding	209,142
Equals that which needs funding from Council Tax	54,720
	<b>£</b>
Divided by tax base (56,145.64) gives a Council Tax at Band D	974.61

### **Calculation of the Council Tax – Police and Crime Commissioner for Gwent & Community Councils**

The final Council Tax also incorporates other demands (precepts) that the Council collects on behalf of other bodies. These bodies are Police and Crime Commissioner for Gwent (PCC for Gwent) and the Community Councils within the city's boundary. Of these, the Police and Crime Commissioner for Gwent is the largest and for 2016/17, has set a precept of £12,355,409.

Authority	Budget requirement / Precept from Council Tax (£000)	Tax Base	Council Tax at Band D		% Change
			2016/17	2015/16	
Newport City	54,720	56,145.64	£974.61	£938.02	3.90%
PCC for Gwent	12,355	56,145.64	£220.06	£211.62	4.00%

The table below lists the precepts and Band D Council Tax for the Community Councils within Newport City boundary, for which the Council collects Council Tax

Authority	Council Tax Base	2016/17 Precept (£)	Council Tax at Band D		% Change
			2016/17	2015/16	
Bishton	756	8,240.40	10.90	9.90	10.1%
Coedkernew	976	2,928.00	3.00	3.50	-14.3%
Goldcliff	185	2,775.00	15.00	15.00	-
Graig	2,859	52,862.91	18.49	17.95	3.0%
Langstone	1,866	38,812.80	20.80	20.80	-
Llanvaches	242	6,050.00	25.00	25.00	-
Llanwern	441	7,497.00	17.00	23.88	-28.8%
Marshfield	1,505	27,090.00	18.00	15.00	20.0%
Michaelstone - Y - Fedw	169	3,667.30	21.70	21.69	-
Nash	137	1,260.40	9.20	9.20	-
Penhow	450	9,549.00	21.22	19.56	8.5%
Redwick	114	2,754.24	24.16	24.16	-
Rogerstone	4,499	82,601.64	18.36	18.00	2.0%
Wentlooge	354	4,248.00	12.00	12.00	-

The Council Tax payable by households is the total of the Newport City Council, Gwent Police Authority and, where relevant, the Community Council taxes payable in the above tables. As already noted, the actual Council Tax payable by households will vary from the figures above as they represent those at the Band D only. The tables included in section 5 of the Council Tax Resolution at Appendix 5 show the actual Council Tax for each Band.

## Appendix 5 – Council Tax Resolution

### RESOLUTION TO SET COUNCIL TAX LEVELS

1. That the revenue estimates for 2016/2017, as recommended by the Cabinet on 15th February 2016 be approved.
2. That it be noted that the Council at its meeting on 20<sup>th</sup> February 2007 delegated the setting of the tax base to the Head of Finance and that on 05 November 2015, the Head of Finance acting in accordance with that delegation calculated the following amounts for the year 2016/2017 in accordance with regulations made under Section 33(5) of the Local Government Finance Act 1992:-

(a) Council Tax Base

56,145.64 being the amount calculated by the Council, in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992, as its council tax base for the year;

(b) Council Tax base for parts of the Council's Area

Area	Tax base
Bishton	756
Coedkernew	976
Goldcliff	185
Graig	2,859
Langstone	1,866
Llanvaches	242
Llanwern	441
Marshfield	1,505
Michaelstone	169
Nash	137
Penhow	450
Redwick	114
Rogerstone	4,499
Wentlooge	354

3. That the following amounts be now calculated by the Council for the year 2016/2017 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-
  - (a) £393,881,336.69 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(2)(a) to (e) of the Act (**Gross Expenditure**).
  - (b) £129,769,000.00 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3)(a) to (c) of the Act (**Gross Income**).
  - (c) £264,112,336.69 being the amount by which the aggregate at (3)(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year (**Budget + Community Council precepts**).

- (d) £209,142,083 being the aggregate of the sums which the Council estimates will be payable for the year into its council fund in respect of redistributed non-domestic rates, revenue support grant or additional grant (**RSG + NDR**).
- (e) £979.07 being the amount at 3(c) above less the amount at 3(d) above, all divided by the amount at 2(a) above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its council tax for the year (**Average Band 'D' Tax for NCC including Community Councils**).
- (f) £250,336.69 being the aggregate amount of all special items referred to in Section 34(1) of the Act and detailed below (**Community Council precepts**).

Area	Special Item £
Bishton	8,240.40
Coedkernew	2,928.00
Goldcliff	2,775.00
Graig	52,862.91
Langstone	38,812.80
Llanvaches	6,050.00
Llanwern	7,497.00
Marshfield	27,090.00
Michaelstone	3,667.30
Nash	1,260.40
Penhow	9,549.00
Redwick	2,754.24
Rogerstone	82,601.64
Wentlooge	4,248.00
	<b>250,336.69</b>

- (g) £974.61 being the amount at 3(e) above less the result given by dividing the amount at 3(f) above by the amount at 2(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its council tax for the year for dwellings in those parts of its area to which no special item relates (**NCC Band 'D' Council Tax**).



(h) Council Tax level for parts of the Council's Area

Area	Basic Council Tax £
Bishton	985.51
Coedkernew	977.61
Goldcliff	989.61
Graig	993.10
Langstone	995.41
Llanvaches	999.61
Llanwern	991.61
Marshfield	992.61
Michaelstone	996.31
Nash	983.81
Penhow	995.83
Redwick	998.77
Rogerstone	992.97
Wentlooge	986.61

Being the amounts given by adding to the amount at 3(g) above, the amounts of the special item or items in 3(f) divided by the amount at 2(b) for the specified area of the council. These amounts are calculated by the Council, in accordance with Section 34(3) of the Act, as the basic amounts of its council tax for the year for dwellings in those parts of its area to which one or more special items relate.

(i)

NCC + Community Councils	Valuation Bands								
	A	B	C	D	E	F	G	H	I
	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p
Bishton	657.01	766.51	876.01	985.51	1,204.51	1,423.51	1,642.52	1,971.02	2,299.52
Coedkernew	651.74	760.36	868.99	977.61	1,194.86	1,412.10	1,629.35	1,955.22	2,281.09
Goldcliff	659.74	769.70	879.65	989.61	1,209.52	1,429.44	1,649.35	1,979.22	2,309.09
Graig	662.07	772.41	882.76	993.10	1,213.79	1,434.48	1,655.17	1,986.20	2,317.23
Langstone	663.61	774.21	884.81	995.41	1,216.61	1,437.81	1,659.02	1,990.82	2,322.62
Llanvaches	666.41	777.47	888.54	999.61	1,221.75	1,443.88	1,666.02	1,999.22	2,332.42
Llanwern	661.07	771.25	881.43	991.61	1,211.97	1,432.33	1,652.68	1,983.22	2,313.76
Marshfield	661.74	772.03	882.32	992.61	1,213.19	1,433.77	1,654.35	1,985.22	2,316.09
Michaelstone	664.21	774.91	885.61	996.31	1,217.71	1,439.11	1,660.52	1,992.62	2,324.72
Nash	655.87	765.19	874.50	983.81	1,202.43	1,421.06	1,639.68	1,967.62	2,295.56
Penhow	663.89	774.53	885.18	995.83	1,217.13	1,438.42	1,659.72	1,991.66	2,323.60
Redwick	665.85	776.82	887.80	998.77	1,220.72	1,442.67	1,664.62	1,997.54	2,330.46
Rogerstone	661.98	772.31	882.64	992.97	1,213.63	1,434.29	1,654.95	1,985.94	2,316.93
Wentlooge	657.74	767.36	876.99	986.61	1,205.86	1,425.10	1,644.35	1,973.22	2,302.09
All Other Parts of the City	649.74	758.03	866.32	974.61	1,191.19	1,407.77	1,624.35	1,949.22	2,274.09

Being the amounts given by multiplying the amounts at 3(g) and 3(h) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in the valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

4. That it be noted for the year 2015/2016, that the only major precepting authority has stated the following amount in precept issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:-

Police and Crime Commissioner for Gwent	Valuation Bands								
	A	B	C	D	E	F	G	H	I
	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p
All Parts of the City	<b>146.71</b>	<b>171.16</b>	<b>195.61</b>	<b>220.06</b>	<b>268.96</b>	<b>317.86</b>	<b>366.77</b>	<b>440.12</b>	<b>513.47</b>

5. That having calculated the aggregate in each case of the amounts at 3(i) and 4 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of council tax for the year 2015/2016 for each of the categories of dwelling shown below:-

Total Council Tax Demand	Valuation Bands								
	A	B	C	D	E	F	G	H	I
	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p
Bishton	<b>803.72</b>	<b>937.67</b>	<b>1,071.62</b>	<b>1,205.57</b>	<b>1,473.47</b>	<b>1,741.37</b>	<b>2,009.29</b>	<b>2,411.14</b>	<b>2,812.99</b>
Coedkernew	<b>798.45</b>	<b>931.52</b>	<b>1,064.60</b>	<b>1,197.67</b>	<b>1,463.82</b>	<b>1,729.96</b>	<b>1,996.12</b>	<b>2,395.34</b>	<b>2,794.56</b>
Goldcliff	<b>806.45</b>	<b>940.86</b>	<b>1,075.26</b>	<b>1,209.67</b>	<b>1,478.48</b>	<b>1,747.30</b>	<b>2,016.12</b>	<b>2,419.34</b>	<b>2,822.56</b>
Graig	<b>808.78</b>	<b>943.57</b>	<b>1,078.37</b>	<b>1,213.16</b>	<b>1,482.75</b>	<b>1,752.34</b>	<b>2,021.94</b>	<b>2,426.32</b>	<b>2,830.70</b>
Langstone	<b>810.32</b>	<b>945.37</b>	<b>1,080.42</b>	<b>1,215.47</b>	<b>1,485.57</b>	<b>1,755.67</b>	<b>2,025.79</b>	<b>2,430.94</b>	<b>2,836.09</b>
Llanvaches	<b>813.12</b>	<b>948.63</b>	<b>1,084.15</b>	<b>1,219.67</b>	<b>1,490.71</b>	<b>1,761.74</b>	<b>2,032.79</b>	<b>2,439.34</b>	<b>2,845.89</b>
Llanwern	<b>807.78</b>	<b>942.41</b>	<b>1,077.04</b>	<b>1,211.67</b>	<b>1,480.93</b>	<b>1,750.19</b>	<b>2,019.45</b>	<b>2,423.34</b>	<b>2,827.23</b>
Marshfield	<b>808.45</b>	<b>943.19</b>	<b>1,077.93</b>	<b>1,212.67</b>	<b>1,482.15</b>	<b>1,751.63</b>	<b>2,021.12</b>	<b>2,425.34</b>	<b>2,829.56</b>
Michaelstone	<b>810.92</b>	<b>946.07</b>	<b>1,081.22</b>	<b>1,216.37</b>	<b>1,486.67</b>	<b>1,756.97</b>	<b>2,027.29</b>	<b>2,432.74</b>	<b>2,838.19</b>
Nash	<b>802.58</b>	<b>936.35</b>	<b>1,070.11</b>	<b>1,203.87</b>	<b>1,471.39</b>	<b>1,738.92</b>	<b>2,006.45</b>	<b>2,407.74</b>	<b>2,809.03</b>
Penhow	<b>810.60</b>	<b>945.69</b>	<b>1,080.79</b>	<b>1,215.89</b>	<b>1,486.09</b>	<b>1,756.28</b>	<b>2,026.49</b>	<b>2,431.78</b>	<b>2,837.07</b>
Redwick	<b>812.56</b>	<b>947.98</b>	<b>1,083.41</b>	<b>1,218.83</b>	<b>1,489.68</b>	<b>1,760.53</b>	<b>2,031.39</b>	<b>2,437.66</b>	<b>2,843.93</b>
Rogerstone	<b>808.69</b>	<b>943.47</b>	<b>1,078.25</b>	<b>1,213.03</b>	<b>1,482.59</b>	<b>1,752.15</b>	<b>2,021.72</b>	<b>2,426.06</b>	<b>2,830.40</b>
Wentlooge	<b>804.45</b>	<b>938.52</b>	<b>1,072.60</b>	<b>1,206.67</b>	<b>1,474.82</b>	<b>1,742.96</b>	<b>2,011.12</b>	<b>2,413.34</b>	<b>2,815.56</b>
All Other Parts of the City	<b>796.45</b>	<b>929.19</b>	<b>1,061.93</b>	<b>1,194.67</b>	<b>1,460.15</b>	<b>1,725.63</b>	<b>1,991.12</b>	<b>2,389.34</b>	<b>2,787.56</b>

## Appendix 6 – Capital Programme 2016/17 – 2017/18

SCHEME	2016/17 £000s	2017/18 £000s	NOTES
<b>EDUCATION</b>			
STEP 4	231	231	Reprofiled existing scheme
New ASD Facility	2,748	0	Reprofiled existing scheme
21C Schools - Nursery Education Provision	84	0	NCC / WG grant, scheme finishing
21C Schools - School Reorganisation - Lodge Hill New Build	3,939	1,000	NCC / WG grant, in progress
21C Schools - Capacity Building - Replacement of Demountables	1,700	1,000	NCC / WG grant, in progress
21C Schools - Welsh Medium Secondary (WM2) Project	10,743	5,000	NCC / Monmouthshire / WG grant funded
Duffryn - Additional Funding	1,900	2,000	Additional service requirement
Primary Place Challenge	1,040	300	Reprofiled existing scheme
Installation of a catering Cashless System in all Primary Schools	50	0	Slippage/ Ongoing scheme
Llanwern High School	24	0	Slippage/ Ongoing scheme
St Andrews Primary 3FE Works	264	0	Slippage/ Ongoing scheme
<b>Total Education</b>	<b>22,723</b>	<b>9,531</b>	
<b>REGENERATION, INVESTMENT &amp; HOUSING</b>			
Education through Restoration: Fourteen Locks	21	0	Scheme finishing
Gypsy Traveller Site Development	1,200	0	Reprofiled existing scheme
Peterstone Sewage Scheme	65	0	Reprofiled existing scheme
Vibrant & Viable Places Grant	4,365	0	WG grant annual allocation
Renovation Grants	1,436	1,436	Annual allocation
Asset Management	2,041	1,500	Annual allocation, adjusted for slippage
Medieval Ship - Purchase of Freeze Dryer	0	12	Reprofiled existing scheme
Central Library Structural Safety Works	350	0	Reprofiled existing scheme
Rivermead MUGA Fence	80	0	New scheme
<b>Total Regeneration, Investment &amp; Housing</b>	<b>9,558</b>	<b>2,948</b>	
<b>CUSTOMER SERVICES &amp; DIGITAL INNOVATION</b>			
Print 2010 - Managed Printer Service	0	210	Cyclical requirement

IT Replacement Schemes	745	744	Reprofiled existing annual allocation
Corporate EDMS Rollout	7	0	Scheme finishing
<b>Total Customer Services &amp; Digital Innovation</b>	<b>752</b>	<b>954</b>	
<b>PEOPLE &amp; BUSINESS CHANGE</b>			
Implementation of HR self-serve System	85	0	Scheme finishing
Preparatory Works Allocation	100	100	Annual allocation
Amount Reserved for Change & Efficiency Programme (Schemes to be confirmed)	3,000	2,200	Subject to ongoing review to determine specific requirements
<b>Total People &amp; Business Change</b>	<b>3,185</b>	<b>2,300</b>	
<b>LAW AND REGULATION</b>			
CCTV	189	0	Reprofiled existing scheme
<b>Total Law and Regulation</b>	<b>189</b>	<b>0</b>	
<b>ADULT &amp; COMMUNITY SERVICES</b>			
Appliances/Equipment for Disabled	165	165	Annual allocation
Telecare Service Equipment	30	30	Annual allocation
Substance Misuse Action Fund Grant	40	0	Fully grant funded
<b>Total Adult &amp; Community Services</b>	<b>235</b>	<b>195</b>	
<b>CHILDREN &amp; YOUNG PEOPLE SERVICES</b>			
6 Place Residential Unit for young people with acute complex needs	0	250	Other service area requirement
<b>Total Children &amp; Young People Services</b>	<b>0</b>	<b>250</b>	
<b>STREETSCENE &amp; CITY SERVICES</b>			
Fleet Replacement Programme	2,000	1,500	Reprofiled existing annual allocation
Waste Disposal site - Finishing & Development works	360	0	Scheme finishing
Decommissioning of Public Toilets	0	20	Reprofiled existing scheme
Llisbury Recreation Ground Changing Rooms	219	0	Reprofiled existing scheme
Graig Area Play Facilities	39	0	Scheme finishing
Maintenance, Footways and Street Lighting (Capital Maintenance)	500	500	Annual allocation

St Julian's Park Ecological Translocation Site	3	0	Scheme finishing
<b>Total Streetscene &amp; City Services</b>	<b>3,121</b>	<b>2,020</b>	
<b>TOTAL EXPENDITURE</b>	<b>39,763</b>	<b>18,198</b>	
<b>Funded By:</b>			
General Capital Grant	2,479	2,192	
Supported Borrowing	4,073	3,601	
Unsupported/ Prudential Borrowing	14,336	10,001	
Capital Receipts	3,554	1,194	
External Grants	14,746	1,000	
Revenue Contributions	50	0	
S106 & Other Contributions	525	0	
Finance Lease	0	210	
<b>TOTAL FUNDING</b>	<b>39,763</b>	<b>18,198</b>	

## **Appendix 7 – Treasury Management Strategy and Prudential Indicators**

### **Prudential Code Indicators, Minimum Revenue Policy, Treasury Management and Investment Strategy Statements 2016/17**

#### **Introduction**

In June 2009 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

The Authority borrows/invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

#### **External Context**

##### **Economic Background**

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but a rate hike

was made in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

**Credit outlook:**

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government’s stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

**Interest rate forecast:**

The Authority’s treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years’ time. Persistently low inflation, subdued global growth and potential concerns over the UK’s position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

**Local Context**

The Authority currently has £227.8 million of borrowing and £7.4 million of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below:

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

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
CFR	321.1	360.2	280.6	283.7	283.5
Less: Other long-term liabilities *	-51.6	-49.3	-47.4	-45.5	-43.8
<b>Borrowing CFR</b>	<b>269.5</b>	<b>310.9</b>	<b>233.2</b>	<b>238.2</b>	<b>239.7</b>

Less: External borrowing **	-190.3	-235.8	-246.6	-205.6	-204.5
<b>Internal (over) borrowing</b>	<b>79.2</b>	<b>75.1</b>	<b>-13.4</b>	<b>32.6</b>	<b>35.2</b>
Less: Usable reserves	-89.8	-83	-78	-74.2	-73.6
Less: Working capital	8	8	8	8	8
<b>Investments / (New Borrowing)</b>	<b>2.6</b>	<b>-0.1</b>	<b>83.4</b>	<b>33.6</b>	<b>30.4</b>

\*finance leases and PFI liabilities that form part of the Authority's debt

\*\* shows only loans to which the Authority is committed and excludes optional refinancing

## **Capital Financing Requirement**

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

The Authority has an increasing CFR during 2015/16 due to the capital programme and the on-going loan to Queensbury Real Estates (Newport) Ltd, but holds minimal investments and will therefore be required to borrow up to £50m during 2015/16. However, during 2016/17 the sale of the development will reduce the CFR significantly and dependent on timing of loan re-payments and capital receipts, significant investments are likely to be required over the forecast period.

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

## **Borrowing Strategy**

The Authority currently holds £227.8 million of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2016/17. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the recommended authorised limit for borrowing of £397 million.

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

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.



Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

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

- Public Works Loan Board and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- Special purpose companies created to enable joint local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

The Authority holds £35m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the automatic option to either accept the new rate or to repay the loan at no additional cost. £30m of these LOBOS have options during 2016/17, and although the Authority understands that lenders are extremely unlikely to exercise their options in the current low interest rate environment, there remains a remote element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

**Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

### **Annual Investment Strategy**

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance

has ranged between £0 million and £25 million. In 2016/17, the investment balances could increase significantly dependent on the timing of the repayment of loans in relation to Queensberry, where a substantial receipt may be achieved in advance of borrowing required to be repaid. As per the strategy, balances could first be used to reduce levels of borrowing required before the Authority invests funds, this is in relation to long term loans which become redeemable.

Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2016/17. This is especially the case for any surplus funds available for investment following the repayment of the Queensberry loan.

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the required credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive are implemented. The Authority may invest its surplus funds with any of the counterparties that meet the definition and credit type as documented in table 2 and additional explanation are:

- **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit level is used.
- **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and designated building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits.
- **Current Account Bank:** The banking contract with Santander UK PLC was renewed for a further three years from 1<sup>st</sup> April 2013. Santander UK PLC is currently rated above the minimum required A- rating. Should the credit ratings fall below A-, the Authority may continue to deposit surplus cash with Santander UK PLC providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB (the lowest investment grade rating).
- **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and designated building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- **Government:** Loans, bonds and bills issued or guaranteed by UK government, regional and local authorities. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Government may be made in unlimited amounts for up to 50 years.
- **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
- **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services they retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.
- **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- **Bond, equity and property** funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly. It is not envisaged that the Authority will use the facility of pool funds in the in the short term.

### **Risk Assessment and Credit Ratings:**

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where the Treasury advisor provides advice relating to a specific named counterparty then the Authority will act upon that advice relating to the duration of exposure and amount.

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may

fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Specified Investments:** The WG Guidance defines specified investments as those:

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

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

- **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled fund; and investments with bodies and schemes not meeting the definition on high credit quality. Appendix C sets out the investment limits/ maximum maturity periods for Non-specified investments.

- **Approved Instruments:** The Authority may lend or invest money using any of the following instruments:
  - interest-bearing bank accounts,
  - fixed term deposits and loans,
  - callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
  - certificates of deposit,
  - bonds, notes, bills, commercial paper and other marketable instruments, and
  - shares in money market funds and other pooled funds.
  
- Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.
  
- **Liquidity management:** The Authority uses purpose-built cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

#### **Monitoring & reporting on the Treasury Management and capital Prudential Indicators**

The Head of Finance will report to the Audit committee/ Cabinet/ Council on treasury management activity, performance and Treasury/Capital Prudential Indicators (set out in Appendix D) as follows:

- Half Yearly and then annually against the strategy approved for the year. The annual report will be produced normally by July of the following year but in any event no later than 30<sup>th</sup> September.
- The Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

#### **Other Items**

- There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.
  
- **Policy on Use of Financial Derivatives:** In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.
  
- **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff members regularly attend training courses, seminars and conferences provided by Arlingclose and other organisations.

- **Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The service provided by Arlingclose continues to meet all expectations and the advice given especially in relation to investment counterparties and credit ratings

has allowed the Council to action the changes needed, especially in removing counterparties from the approved list, in a prompt and timely manner.

### **Financial Implications**

- The approximate debt interest of £8.8 million and principal of £1.0 million is expected to be paid in 2016/17 (this includes Queensbury interest payments and maturities) If actual levels of investments and borrowing differ from those forecast, performance against budget will be correspondingly different.

### **Other Options Considered**

- The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

## **Appendix A – Arlingclose Economic & Interest Rate Forecast November 2015**

### **Underlying assumptions:**

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the last quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August 2015. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

### **Forecast:**

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the

downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
<b>Official Bank Rate</b>													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.25</b>	<b>1.50</b>	<b>1.50</b>	<b>1.75</b>	<b>1.75</b>
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
<b>3-month LIBID rate</b>													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>0.55</b>	<b>0.60</b>	<b>0.70</b>	<b>0.80</b>	<b>0.95</b>	<b>1.05</b>	<b>1.15</b>	<b>1.30</b>	<b>1.40</b>	<b>1.55</b>	<b>1.65</b>	<b>1.80</b>	<b>1.85</b>
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
<b>1-yr LIBID rate</b>													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
<b>Arlingclose Central Case</b>	<b>1.10</b>	<b>1.20</b>	<b>1.35</b>	<b>1.45</b>	<b>1.55</b>	<b>1.70</b>	<b>1.80</b>	<b>1.95</b>	<b>2.00</b>	<b>2.10</b>	<b>2.15</b>	<b>2.15</b>	<b>2.15</b>
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
<b>5-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.70</b>	<b>1.80</b>	<b>1.90</b>	<b>2.00</b>	<b>2.10</b>	<b>2.20</b>	<b>2.25</b>	<b>2.30</b>	<b>2.35</b>	<b>2.35</b>
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
<b>10-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.00</b>	<b>2.05</b>	<b>2.10</b>	<b>2.20</b>	<b>2.30</b>	<b>2.40</b>	<b>2.50</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.80</b>
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
<b>20-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.45</b>	<b>2.50</b>	<b>2.55</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>2.95</b>	<b>2.95</b>
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
<b>50-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.45</b>	<b>2.50</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>2.95</b>	<b>3.00</b>	<b>3.00</b>
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15



## Appendix B – Existing Investment & Debt Portfolio Position

	<b>31/12/15 Actual Portfolio £m</b>
<b>External Borrowing:</b>	
PWLB – Fixed Rate	74.84
Market Loans	35.00
Stock Issue	40.00
Temporary loans - Queensberry	77.98
Other Soft Loans	0.00
<b>Total External Borrowing</b>	<b>227.82</b>
<b>Other Long Term Liabilities:</b>	
PFI	51.16
Finance Leases and other	0.15
<b>Total Gross External Debt</b>	<b>279.13</b>
<b>Investments:</b>	
Short-term investments	7.39
Long-term investments	0.00
<b>Total Investments</b>	<b>7.39</b>
<b>Net Debt</b>	<b>271.74</b>

## Appendix C – Operational Investment Counterparties List

### COUNTERPARTY LIMITS FOR BANKING – UK INSTITUTIONS

	Unsecured Investments		Secured Investments	
	Maximum Counterparty Limit and Group Limit (if applicable)	Maximum Lending Period	Maximum Counterparty Limit and Group Limit (if applicable)	Maximum Lending Period
Bank of Scotland	£5,000,000	13 Months	£10,000,000	2 years
Barclays Bank Plc.	£5,000,000	100 Days	£10,000,000	2 years
Close Brothers Ltd	£5,000,000	6 Months	£10,000,000	2 years
Goldman Sachs International Bank	£5,000,000	100 Days	£10,000,000	2 years
HSBC Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
Lloyds Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
National Westminster Bank Plc.	£2,500,000	35 Days	£10,000,000	2 years
Nationwide Building Society	£5,000,000	6 Months	£10,000,000	2 years
Royal Bank of Scotland	£2,500,000	35 Days	£10,000,000	2 years
Santander UK Plc. (Banco Santander Group)	£5,000,000	6 Months	£10,000,000	2 years
Standard Chartered Bank	£5,000,000	6 Months	£10,000,000	2 years

\* based on advice from Arlingclose

## Appendix D

### Prudential Indicators 2016/17 – 2018/19

#### 1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

#### 2. Gross Borrowing and the Capital Financing Requirement:

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

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement, which is used for comparison with gross external debt.

The Head of Finance reports that the authority will have no difficulty meeting this requirement in 2016/17, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

#### 3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

<b>Capital Expenditure</b>	<b>2015/16 Estimate £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
<b>Total</b>	<b>26.1</b>	<b>40.2</b>	<b>18.2</b>	<b>20.0</b>

3.2 Capital expenditure will be financed or funded as follows:

<b>Capital Financing</b>	<b>2015/16 Estimate £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Capital receipts	1.6	3.6	1.2	1.5
Government Grants	2.4	2.5	2.2	2.0
Other Specific Grants	9.9	14.7	1.0	5.0
S106 Contributions	2.0	0.5	0.0	0.5
Revenue contributions	0.9	0.0	0.0	0.1
<b>Total Financing</b>	<b>16.8</b>	<b>21.3</b>	<b>4.4</b>	<b>9.1</b>
Supported borrowing	4.0	4.0	3.6	3.6
Unsupported borrowing	5.3	14.9	10.0	7.3
Finance Leases	0.0	0.0	0.2	0
<b>Total Funding</b>	<b>9.3</b>	<b>18.9</b>	<b>13.8</b>	<b>10.9</b>
<b>Total Financing and Funding</b>	<b>26.1</b>	<b>40.2</b>	<b>18.2</b>	<b>20.0</b>

#### 4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
<b>Total</b>	8.7%	8.8%	9.0%	9.2%	8.4%

#### 5. Capital Financing Requirements:

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

Capital Financing Requirement	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
<b>Total CFR</b>	360.2	280.6	283.7	283.5

#### 6. Actual External Debt:

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

Actual External Debt as at 31/03/2015	£000
Borrowing	190,400
Other Long-term Liabilities	51,160
<b>Total</b>	<b>241,560</b>

#### 7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase in Band D Council Tax*	3.88	5.99	5.77	3.89

\*Assumes a 5% increase in 16/17 and 4.0% cumulative thereafter increase in Council Tax although no decision has been taken to this effect. The Friars Walk Loan have been excluded from these calculation as it is not part of the capital programme.

## 8. Authorised Limit and Operational Boundary for External Debt:

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

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

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

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

<b>Authorised Limit for External Debt</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Borrowing	350	259	255
Other Long-term Liabilities	47	46	44
<b>Total</b>	<b>397</b>	<b>305</b>	<b>299</b>

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

8.6 The Head of Finance has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported in the next regular capital/treasury monitoring report to be submitted to Cabinet/Council.

<b>Operational Boundary for External Debt</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Borrowing	330	239	235
Other Long-term Liabilities	47	46	44
<b>Total</b>	<b>377</b>	<b>285</b>	<b>279</b>

## 9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

## **Adoption of the CIPFA Code of Practice in Treasury Management**

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 29<sup>th</sup> June 2009.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies and procedures and will update its treasury management practice documentation in due course.

### **10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:**

- 10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments)
- 10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises that could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	<b>Existing limit at 31/03/15 %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
<b>Upper Limit for Fixed Interest Rate Exposure</b>	100%	100%	100%	100%	100%
<b>Upper Limit for Variable Interest Rate Exposure</b>	50%	50%	50%	50%	50%

- 10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

### **11. Maturity Structure of Fixed Rate borrowing:**

- 11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.
- 11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.
- 11.3 LOBO's are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment and as most of these loans are on six monthly notice period, then they increase the under 12 months percentage accordingly, though it is considered unlikely all will be called within one financial year.
- 11.4 The greatest concentration of debt is in the financial year 2019/20 when the stock issue (£40m) matures. A strategy to deal with the repayment will be prepared closer to the maturity date.

<b>Maturity structure of fixed rate borrowing (Newport CC debt)</b>	<b>Existing level at 31/12/15 %</b>	<b>Lower Limit for 2016/17 %</b>	<b>Upper Limit for 2016/17 %</b>
under 12 months	18%	0%	40%
12 months and within 24 months	18%	0%	20%
24 months and within 5 years	19%	0%	70%
5 years and within 10 years	14%	0%	50%
10 years and within 20 years	7%	0%	30%
20 years and within 30 years	7%	0%	20%
30 years and within 40 years	3%	0%	20%
40 years and within 50 years	7%	0%	20%
50 years and above	7%	0%	20%

## **12. Credit Risk:**

12.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

12.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

12.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

12.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

## **13. Upper Limit for total principal sums invested over 364 days:**

13.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. For 2016/17, this is expected to be significant due to the sale of Friars Walk, however risks will be reduced by using only the approved investment counterparties limits.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>
	100	5	5	5

## **Appendix E – Minimum Revenue Provision (MRP) Statement 2016/17**

1. The Welsh Government's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Ministers and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.
2. The four MRP options available are:
  - Option 1: Regulatory Method
  - Option 2: CFR Method
  - Option 3: Asset Life Method
  - Option 4: Depreciation Method
3. MRP in 2016/17: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.
4. The MRP Statement will be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.
5. The Authority will apply Option 1/Option 2 in respect of supported Non-HRA capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported Non-HRA capital expenditure funded from borrowing.
6. MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.
7. In December 2013 the Council approved a loan of up to £89.1million to Queensberry Real Estates (Newport) Ltd (QRE) to fund the building of the Friars Walk Development. The loan is anticipated to be paid off in full via a capital receipt at the end of the three-year period. On this basis, the Council will not be required to make MRP charges to the revenue budget in relation to the Friars Walk Development loan as the borrowing will be paid off in full at the end of the scheme.



## Appendix 8 – MTFP

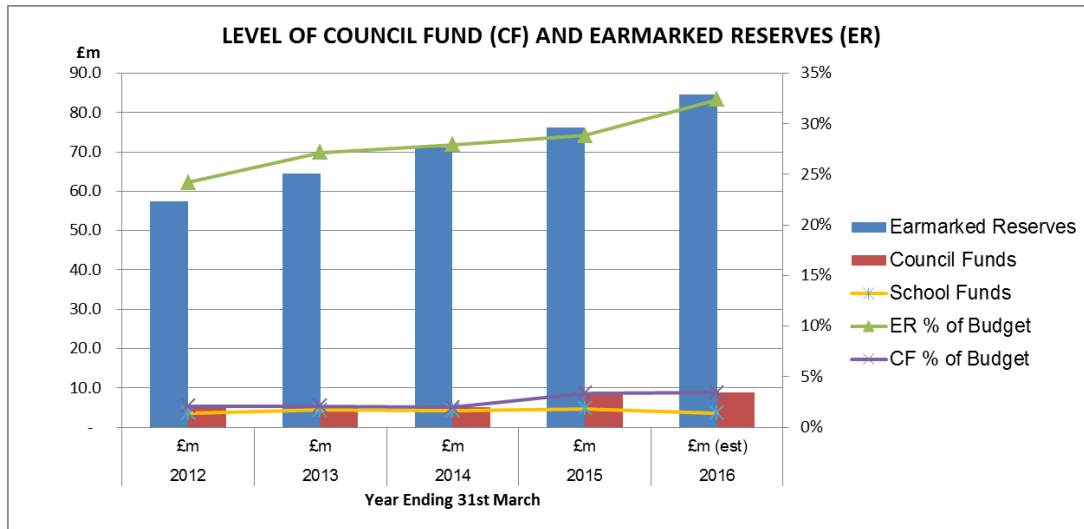
	2016/17	2017/18	2018/19	2019/20	TOTAL
<b>Pressures</b>					
Inflation	1,886	2,041	2,905	3,005	<b>9,837</b>
Other	10,553	3,192	3,007	3,038	<b>19,790</b>
<b>Total Pressures</b>	<b>12,439</b>	<b>5,233</b>	<b>5,912</b>	<b>6,043</b>	<b>29,627</b>
<b>Technical Adjustments</b>	- 1,900	-	-	-	- 1,900
(INCREASE)/DECREASE IN REVENUE SUPPORT GRANT(-0.7% 16/17, 1.5% thereafter, flat 2019/20)	112	3,137	3,090	-	6,339
Increase in tax base - C.Tax @ 15/16 rate	- 549	-	-	-	- 549
C. Tax @ 3.9% in 16/17 (4% thereafter)	- 2,054	- 2,126	- 2,146	- 2,166	- 8,491
Less consequential increase in benefits	599	489	493	498	2,079
<b>GAP</b>	<b>8,646</b>	<b>6,733</b>	<b>7,350</b>	<b>4,375</b>	<b>27,105</b>
Savings	8,647	3,047	676	510	
Balance - @ -1.5% WG reduction (2017/18 and 2018/19)	0	3,686	6,674	3,865	14,226
Balance - @ -1.25% WG reduction*	N/A	3,164	6,165	3,865	13,194
Balance - @ -1% WG reduction*	N/A	2,641	5,654	3,865	12,160
Balance - @ -2% WG reduction*	N/A	4,732	7,683	3,865	16,280

\*19/20 assumes no reduction in WG Grant

## Appendix 9 Projected 2016/17 Financial Resilience, Earmarked Reserves & Summary of 'Invest to Save' spend and Forecast

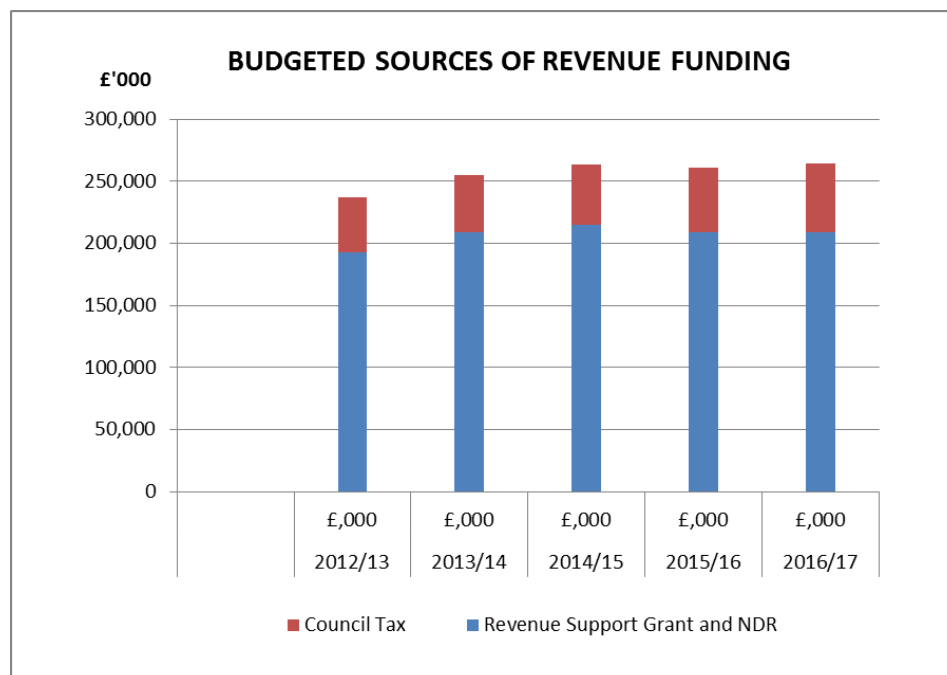
### LEVEL OF COUNCIL/SCHOOL RESERVES (CF) AND EARMARKED RESERVES (ER)

Year Ending 31st March	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m (est)
Earmarked Reserves	57.4	64.5	71.2	76.1	84.7
Council Funds	5.0	5.0	5.0	8.9	8.9
ER % of Budget	24%	27%	28%	29%	32%
CF % of Budget	2.1%	2.1%	2.0%	3.4%	3.4%
School Funds	3.6	4.4	4.2	4.8	3.6



### BUDGETED SOURCES OF REVENUE FUNDING

Total Revenue Funding	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000	2016/17 % of budget
Revenue Support Grant and NDR	192,799	209,035	214,826	209,254	209,142	79%
Council Tax	44,457	45,763	49,104	52,117	54,720	21%



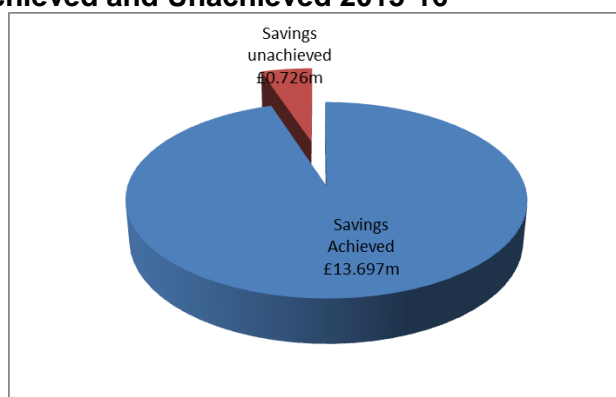
## FINANCIAL PERFORMANCE AND RATIOS

Ratio	Calculation	2011/2012 £'000	2012/2013 £'000	2013/2014 £'000	2014/2015 £'000
Net Worth	(Asset- Liabilities)	192,001	53,668	96,061	44,764
Net Worth (exc Pension Liab.)	(Asset- Liabilities)	387,049	306,220	280,675	296,914
Working Capital Ratio	(Curr. Assets /Curr. Liabilities )	0.59	0.68	0.79	0.89
Gearing Ratio	(Borrowing / Total Reserves)	50.1%	44.1%	51.2%	45.5%

## REVENUE PROJECTED OUTURN POSITION 2015/16 (Period 8 reported at January Cabinet)

Directorate	Net Expenditure Budget	Projected Outturn £'000	Variance £'000	Variance %
Children & Young People	20,469	20,721	252	1.23
Adult & Community Services	38,169	38,604	435	1.14
Education (inc schools)	100,506	101,833	1,327	1.32
Regeneration, Investment & Housing	9,441	9,432	(9)	0.10
Streetscene & City Services	17,507	17,362	(145)	0.83
Corporate Services	16,170	15,593	(577)	3.57
<b>Total Directorates</b>	<b>202,262</b>	<b>203,545</b>	<b>1,283</b>	<b>0.63</b>
Capital Financing	28,960	27,698	(1,262)	4.36
Contingency/ Provisions	5,165	4,303	(862)	16.69
Levies / other	20,119	19,098	(1,021)	5.07
Reserves /Transfer	4,864	6,602	1,738	35.73
Council Tax	-	280	(280)	N/A
<b>Total Budget</b>	<b>261,370</b>	<b>260,966</b>	<b>- 404</b>	<b>- 0.15</b>

## Revenue Savings Achieved and Unachieved 2015-16



## MTFP SCENARIO

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20	Total £,000
<b>Financial Pressures</b>	<b>12,439</b>	<b>5,233</b>	<b>5,912</b>	<b>6,043</b>	<b>29,524</b>
Funding Reductions (-0.7% 16/17, - 1.5% thereafter, flat 19/20)	112	3,137	3,090	-	6,348
Budget Requirement Reduction	12,551	8,370	9,002	6,043	35,872
Council Tax @ 3.9% 16/17 (4% thereafter)	2,004	- 1,637	- 1,652	- 1,668	- 7,408
Savings	10,547	3,003	676	510	14,736
<b>Shortfall to Requirement</b>	<b>0</b>	<b>3,730</b>	<b>6,674</b>	<b>3,865</b>	<b>13,728</b>
<b>RSG Reduction scenarios</b>					
based on 1.25% reduction	N/A	3,207	6,165	3,865	13,237
based on 1.00% reduction	N/A	2,685	5,654	3,865	12,204
based on 2% reduction	N/A	4,776	7,682	3,865	16,323

## Projected Earmarked Reserves

	Balance at 31-Mar-15	Movements between Reserves		Via Comprehensive I&E Account		Balance at 31-Mar-16	Type	Purpose/rationale for reserve
		Transfers Out	Transfers In	Transfers Out	Transfers In			
	£'000	£'000	£'000	£'000	£'000	£'000		
Council Fund:	(8,926)					(8,926)	General	General Reserve
Balances held by schools for future use	(4,760)			1,171		(3,589)	School's	Balances held by schools for their future use
<b>Earmarked Reserves:</b>								
Music Service	(165)					(165)	Risk	This is a general reserve retained by the Gwent wide Music Service and a traded service and belongs to all trading partners. Newport holds the reserve as the hosting authority. The reserve is held as a balance to cater for years where trading income is below expenditure and/or one off costs for re-organisation are incurred.
Capital Expenditure	(51)				(1,500)	(1,551)	Risk	Amount included to fund risks of delivery of Capital Projects e.g. abortive costs, cost overruns
Insurance Reserve	(1,772)					(1,772)	Risk	To assist in management of the Council's insurance risks and provide funds, over and above existing insurance provisions for excessive levels of claims/costs in any year.
MMI Insurance Reserve	(665)				(250)	(915)	Risk	To assist in future funding requirements of MMI in line with the agreed 'Scheme of Arrangement'

	Balance at 31-Mar-15	Movements between Reserves		Via Comprehensive I&E Account		Balance at 31-Mar-16	Type	Purpose/rationale for reserve
		Transfers Out	Transfers In	Transfers Out	Transfers In			
	£'000	£'000	£'000	£'000	£'000	£'000		
Legal Claims	(100)					(100)	Risk	Risk of future legal claims in relation to a range of charges such as Social Services, complaints and non-compliance etc
Health & Safety	(16)					(16)	Risk	Responding to inspections and reports from Health & Safety Executive
Council Tax Reduction	(500)					(500)	Risk	Council responsible for cost overruns on C Tax benefits, which is demand led. Reserve covers specific budget risk on this area and established when grant funding transferred into RSG
Education Achievement Service	(92)					(92)	Risk	Reserve held against Newports share of any redundancy costs that may arise from a restructure of the service as a result of funding reductions from grant allocations. Newport is a partner in the service and has to take a share of any costs that may arise.
Schools Redundancies	(225)				(179)	(404)	Risk	Reserve has been created from contributions from Schools to cater for redundancy costs that arise through schools who face financial issues. The value has been negotiated with the schools as a contribution towards the costs that have to be met by the LA.
Friars Walk	(2,629)				(3,000)	(5,629)	Risk	established to assist with potential future funding/risks in relation to the Friars Walk Scheme

	Balance at 31-Mar-15	Movements between Reserves		Via Comprehensive I&E Account		Balance at 31-Mar-16	Type	Purpose/rationale for reserve
		Transfers Out	Transfers In	Transfers Out	Transfers In			
		£'000	£'000	£'000	£'000			
Gem Services Reserves	(100)					(100)	Risk	Reserve created from service income levels over and above grant income in 2014/15 to cater for anticipated redundancy costs anticipated from restructuring to cater for different language sets, and potential reduction in grant income.
Pay Reserve	(7,302)	3,500		1,350		(2,452)	Enabling / Risk	Total Reward team costs, outstanding equal pay claimants, hardship payments.
Invest to Save	(7,520)		(3,500)		(2,650)	(13,670)	Enabling	To enable funding of specific change/efficiency projects which achieve savings to the revenue budget
Super Connected Cities	(1,041)			250		(791)	Enabling	Funding for Community Safety Network over a seven year period including project costs
Landfill (fines reserve)	(163)			40		(123)	Enabling	Recycling initiative (door knocking campaign) to increase recycling targets
Christmas Lights	(75)			29		(46)	Enabling	Recover costs associated with Christmas Lights until alternative funding sources are found.
Capital Works	(1,250)				(500)	(1,750)	Enabling	Established to fund specific capital schemes which can then be included in the Capital Programme which would otherwise require borrowing costs to be incurred, during current challenging financial period.

		Movements between Reserves		Via Comprehensive I&E Account				
	Balance at 31-Mar-15	Transfers Out	Transfers In	Transfers Out	Transfers In	Balance at 31-Mar-16	Type	Purpose/rationale for reserve
	£'000	£'000	£'000	£'000	£'000	£'000		
Usable Capital Receipts	(6,968)	1,657			(1,300)	(6,611)	Enabling	Holds proceeds from the sale of property, plant and equipment, used to finance new capital expenditure. Currently reserved for Council contribution to 21C Schools programme
STEP School Computers	(879)					(879)	Smoothing	Reserve to match agreed income and expenditure of 3 year STEP program for schools. Schools charged annual amount and any excess/deficit due to timing differences held here.
Municipal Elections	(86)					(86)	Smoothing	Reserve used to smooth over significant differences in annual budget required over a cyclical period whilst keeping budget at a stable annual amount.
Local Development Plan	(476)				(52)	(528)	Smoothing	Reserve used to smooth over significant differences in annual budget required over a cyclical period whilst keeping budget at a stable annual amount. Related to production and inspection of the LDP and SPG's
Glan Usk PFI	(418)				(552)	(970)	Smoothing	Established to smooth out funding differences that arised from funding available and payments to the contractor - reserve will balance over life of project

	Balance at 31-Mar-15	Movements between Reserves		Via Comprehensive I&E Account		Balance at 31-Mar-16	Type	Purpose/rationale for reserve
		Transfers Out	Transfers In	Transfers Out	Transfers In			
	£'000	£'000	£'000	£'000	£'000	£'000		
Southern Distributor Road PFI	(42,484)				(2,014)	(44,498)	Smoothing	Established to smooth out funding differences that arised from funding available and payments to the contractor - reserve will balance over life of project
Works of art	(21)					(21)	Other	To fund purchases for the collections.
School Works	(424)					(424)	Other	Reserve specifically for identified school works - funded by school's themselves. Reserve allows schools to build up specific scheme reserves over a number of years, where required.
Theatre & Arts Centre	(233)					(233)	Other	Council agreed reserve as condition of Art's Council funding of the Riverfront Theatre.
Cymorth Income	(38)					(38)	Other	To fund the provision of Domestic Abuse Services.
Pupil Referral Unit	(60)					(60)	Other	Specific reserve for development of PRU over and above refurbishment of new premises.
Chartist Commission	(50)			50		-	Other	To fund the replacement of the Chartist Mural.
Gypsy and Traveller Site	(20)			20		-	Other	To carry out preparation, design, consultancy activities with the development of the Gypsy and Traveller site identified in the LDP



		Movements between Reserves		Via Comprehensive I&E Account				
	Balance at 31-Mar-15	Transfers Out	Transfers In	Transfers Out	Transfers In	Balance at 31-Mar-16	Type	Purpose/rationale for reserve
	£'000	£'000	£'000	£'000	£'000	£'000		
Homelessness Prevention	(38)					(38)	Other	There is a minimum amount that needs to be spent on homelessness prevention on an on-going basis. The revenue budget is continually under pressure of overspending due to the obligation placed on the Authority to house clients
Environmental Health - Improve Air Quality	(50)					(50)	Other	To undertake highways work in a specific area to improve air quality and reduce noise pollution
Refurbishment of a Children / Older People Homes	(80)			22		(58)	Other	Reserve established from 2014/15 underspending. There is a need to refurbish our Residential Homes on a regular basis to attract Service Users and more importantly, to ensure they meet the inspectors criteria.
ECDL Training Package	(50)					(50)	Other	Reserve established from 2014/15 underspending. To fund ECDL and online IT training packages
City Deal Reserve	(50)			50		-	Other	To fund initial contribution to the City Deal project
Great Western Cities	(50)			3		(47)	Other	To fund the anticipated councils share of an analysis of the economic impact of the three cities
	<b>(89,827)</b>	<b>5,157</b>	<b>(3,500)</b>	<b>2,985</b>	<b>(11,997)</b>	<b>(97,182)</b>		

## **Invest To Save - Summary Forecast**

	<b>£'000</b>
Balance B/F 31.03.2015	(7,520)
Transfer from base budget	(950)
In-year transfer to reserve	(1,700)
Transfer from pay reserve	(3,500)
<b>Total Balance prior to spend</b>	<b>(13,670)</b>
Total Forecast Spend 2015/16	2,392
Invest to Save Forecast balance 31.03.2016	<b>(11,278)</b>
 Further Funding Required:- Bids & Change/Efficiency proposals as at February 2016	
2016/17	3,730
2017/18	857
2018/19	75
Remaining Invest to Save reserve available for future Change/Efficiency Programme	<b>(6,616)</b>