

# Report

## Council

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### Part 1

Date: 02 March 2017

Item No:

**Subject** 2017/18 Budget and Medium Term Financial Plan

**Purpose** To agree the Council's 2017/18 overall revenue budget and the resulting Council Tax resolution, 2017/18 capital budget, the Council's Treasury Management Strategy, Investment Strategy, Minimum Revenue Provision policy, Prudential Indicators and the reserves policy as recommended by Cabinet on 20th February, 2017.

**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.
- Reserves Policy

Cabinet met on the 20th February and finalised detailed budget recommendations plus the various Treasury Management strategies and policies outlined above. This paper shows the 2017/18 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 3.5% (£1,008.72 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 year of the current Capital programme. Council is asked to note this decision.

**Proposal** That Council:

**Revenue budget and Council Tax 17/18 (paragraphs 4-32)**

- Note that an extensive consultation exercise has been completed on the medium term change/efficiency programme, including the 2017/18 budget proposals and that Cabinet have taken these into account in recommending final details of the programme and the resulting 2017/18 overall revenue budget recommended to this Council;
- Note the Head of Finance's recommendations that minimum General Fund Balances be maintained at £6.5million;
- 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 3.5%, a band D tax of £1,008.72;
- Approve the formal Council Tax resolution, included in Appendix 5 which incorporates The Police and Crime Commissioner for Gwent & Community Council precepts.

**Capital Programme and 2017/18 budget (paragraphs 43–56)**

- Approve the 2017/18 capital budget, this being the final year of the current 4 year programme. Detail contained in Appendix 6.

**Treasury Management and Investment strategies, Minimum Revenue Provision Policies, Prudential Indicators and Reserves Policy (paragraphs 57-90)**

- 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;
- To approve the Reserves Policy in Appendix 9c.

**Medium Term Financial Plan and Capital programme (paragraphs 1 – 3 and 43 - 56)**

- To note the MTFP and the challenging financial climate over the medium term.
- 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 year of the current capital programme (Appendix 6). Noting they are subject to on-going review and updating.

**Action by** Head of Finance – prepare 2017/18 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 2017/18 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 20<sup>th</sup> February 2017 and shared with Members via the Council's Scrutiny Committees in January 2017.
2. As in prior years, and in line with best practice, we are asking Council to consider the key budget issues together and:
  - approve the overall revenue & capital budget and resulting Council Tax; and
  - approve the Council's treasury management and investment strategies, minimum revenue provision policy, prudential indicators and a new reserves policy, following recommendation from external audit that this was developed and approved.
3. As last year, Council should note that Cabinet continue to take a strategic and medium term view and approve the implementation of the Council's four year change and efficiency programme, including all budget investments and saving options, as summarised within the Medium Term Financial Plan and the remaining year of the Capital Programme. Noting that these plans are subject to on-going review and updating.

### **THE COUNCIL'S 2017/18 REVENUE BUDGET AND COUNCIL TAX**

4. During the Summer and Autumn of 2016, 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 was carried out for the current year's budget.
5. The resulting budget proposals agreed by Cabinet in December have also been consulted on as follows:
  - With Trade Unions via the Employee Partnership Forum on 12 January 2017. The Unison and GMB unions have also separately responded with their observations.
  - With all Scrutiny Committees in their January 2017 meetings where Members discussed the detailed change and efficiency programmes plus the MTFP.
  - With the Schools' Forum on 10 January.
  - With the public from 21<sup>st</sup> December 2016 to 20 January 2017.
  - Newport Fairness Commission has reviewed the proposals in terms of their parameters of fairness.
  - The GAVO Engage Portfolio which represents hard to reach client groups.
  - Representations were received from Marshfield Community Council following a public meeting
6. Details of the consultation responses were included in the Cabinet report on the 20<sup>th</sup> February 2017 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 2017/18

7. The starting point for the 2017/18 budget is the current year's budget. Whilst it is a challenging year, services, with the exception of Social Services, Education and StreetScene 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 2017/18 and beyond and where required these have been included in service pressures / investment proposals.
8. Funding levels for service areas based on the draft proposals are shown in Appendix 1 with the detailed budget investments / pressures and savings shown in Appendix 2 and 3 respectively. Proposals for 2017/18 include c£6.6 million of budget investments / pressures over and above the costs of inflation. The most significant area of additional expenditure are linked to:
  - £1,100k additional investment in schools
  - £1,025k for pay increments
  - £547k pressure from shortfall in delivering cross cutting savings
  - £447k cost of paying National Minimum Wage to Council contractors, mainly Social Care
  - £400k for underlying / historical demand for adult social care services
  - £400k for increasing number of children in out of County placements
  - £324k of pressure from implementing national policy of increasing 'capital limit' before any contributing is payable for residential care charges
  - £321k new responsibility for Homelessness Prevention
  - £316k cost of national Apprenticeship Levy
  - £250k pressure from undelivered landfill income target saving
  - £150k pressure from shortfall in delivering 'double handling' target saving
  - £137k for adult social care demographic increase
  - £110k for pension auto enrolment 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 2017/18. 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 in 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. For 2017/18, the WG also transferred 'new responsibilities' to Local Councils and the settlement included provision for the cost of these, namely (i) Homelessness Prevention and (ii) reduced income stemming from the increased capital limits for residential care.
12. The need to identify a significant level of savings to balance the budget, both for 2017/18 and the next three years was recognised at the early stages of budget preparation and a robust process has identified new savings of c£5.7m of savings over the 4 years, of which c£3.4m is for 2017/18. These are in addition to already agreed savings of c£2.5m of savings over the next 4 years, of which just under £2.2m is for 2017/18. The savings are shown in Appendix 3.
13. The need to find savings has come mainly from increasing cost pressures and investments as well as a reduced WG revenue support grant. Whilst the overall WG grant settlement to Local Government has increased slightly, it decreased for this Council following change as to how population numbers are forecasted/ measured plus an increasing tax base.

14. Cabinet considered the schools' funding position in its December 2016 and February 2017 meetings, noting that additional funding had been consistently given to schools over the last 4 years or so, both from the Council and specific grants from WG. Further increases in some WG grants have been indicated for 2017/18, and also an announcement of a new grant to help reduce class sizes, though no detail is yet available on its distribution. Some grants will also be decreasing. At its February meeting, in response to consultation, Cabinet approved an increase to the overall school's budget of £1.1m for 2017/18, which schools can allocate as normal themselves, including sustaining the proposals for Learning Support Centres in secondary schools and the Learning Resource Base in Llanwern High School if they wish.

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

15. The finance settlement from WG is important to the financial position of the Authority making up approximately 80% of its net budget funding. The Council received its final settlement on 21<sup>st</sup> December 2016 and as predicted, and planned for, it confirmed a significant reduction in the grant for 2017/18. The reasons for the disappointing draft settlement were explained in the December 2016 report on the draft budget and the final settlement reduced again due to the increased tax base in Newport, with the ability to raise funding from council tax being higher than the Welsh average. The equalisation of the RSG for different Council's ability to raise funding from council tax is a key feature of the system.
16. Councils must set Council Tax on or before 11<sup>th</sup> March each year but, in practical terms, to delay 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.
17. The final budget is therefore based on the final RSG settlement of £208.3m, which represents a 0.4% decrease in cash funding from the current year level, but a 0.7% decrease after taking account of specific grant transfers into the settlement and new responsibilities.
18. 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, however, as noted above 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 final settlement figure. An allowance for the increased costs of benefits is also required. For 2017/18, the tax base is 57,619.96 (2016/17 - 56,145.64.) which is a 2.6% increase.

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

19. 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.
20. Any overspend in 2016/17 over and above the revenue contingency budget would be an issue. However, currently no overall overspend is forecast. There are, however, a number of significant base budget pressures and overspends in the current 2016/17 year and these have been considered alongside the challenging savings targets for 2017/18. Additional significant budget capacity has been provided where it has been deemed necessary.
21. New saving proposals and additional income proposals over the 4 year period amount to approximately £5.7m and will need to be delivered in order to achieve a balanced outturn for 2017/18 and subsequent years. 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.

22. Cross cutting (Council wide) saving proposals in areas of procurement, administrative processing tasks and management/ supervisory de-layering have delivered significant savings over the last 3 years. Any outstanding/undelivered targets are currently reflected within current year (2016/17) budget and have been adjusted as needed for 2017/18, reducing the budget risk from these areas.
23. 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'.
24. 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 this respect, Council will be aware that the current base budget has a c£1.5million contingency budget.
25. 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 13a shows the current 'snapshot' of key data and information, alongside the current and projected position on the Council's reserves.
26. 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. There are also earmarked reserves set aside to fund expected future increases in costs for projects and furthermore a reserve set aside for the smoothing of the funding associated with these projects, the most significant example being the Private Finance Initiative (PFI) reserves. These contribute to a strong balance sheet position that is shown in the 'snapshot'.
27. 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 2016/17 again which is summarised in the financial resilience 'snapshot' appendix.
28. Specific one off costs for implementation of the change & efficiency programme will be funded from the current Invest to Save. Our forecasts indicate that there will be sufficient funds within this reserve to meet the above one off costs over the medium term of the current list of saving proposals here.
29. 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:

30. 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 within the proposals.
31. 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.



32. 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 its current level of £6.5million, supported by the base budget contingency of £1.5m.
33. 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 2017/18. 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 2017/18 budget as proposed is robust.

### Proposed Budget & Newport Council Tax Level

34. 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.
35. Based on a 3.5% Council Tax, the table below compared the available and required budget funding which Cabinet considered at its meeting on 20<sup>th</sup> February 2017. The additional funding for schools and deletion of the Linc ExtraCare Home saving proposal are already included in the budget investments/ savings.

The table below shows the available and required budget funding with a 3.5% increase in Council Tax. In setting Council Tax, the Council needs to be aware of the need to set a balanced budget.	<b>3.5% Increase</b>
<b>Council Tax at Band D at 3.5%</b>	£1,008.72
<b>Budget requirement</b>	<b>£000</b>
Base Budget 2016/17	263,864
Inflation & Re-pricing adjustments	2,151
Technical Adjustment and transfer from reserves	(1,138)
<b>BASE BUDGET 2017/18 (before investments/savings)</b>	<b>264,876</b>
Budget investments – (£6,606k shown in list of pressures plus increase of £680k required in Council Tax Benefit based on 3.5% Council Tax increase)	7,286
Budget savings (£5,575k shown in list of savings less £138k relating to council tax funding adjustment)	(5,438)
Estimated Specific Grant – Social Care (estimated)	(353)
<b>DRAFT BASE BUDGET 2017/18</b>	<b>266,372</b>
<b>Funding available</b>	
Draft WG Settlement	208,250
Current Council Tax at new tax base	56,157
Increased Council Tax @ 3.5%	1,965
<b>Total</b>	<b>266,372</b>
<b>Balance available 'in hand'</b>	<b>-</b>



36. In recommending a final budget to Council, the Cabinet agreed the following
- Reduce Council Tax increase to 3.5%
37. The final budgets, as detailed in Appendix 1, incorporate the above recommendations. In finalising the budgets from the draft, which was consulted upon, Cabinet were aware of the key messages/ concerns/ support coming out of the Consultation.
38. 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 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**

39. 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 20<sup>th</sup> February 2017.

### **Equalities Impact Assessments (EIA)**

40. 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.
41. 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.
42. In finalising its budget proposals, Cabinet took account of the equalities impact assessments carried out, which was reported to them in their meeting on 20<sup>th</sup> February 2017.

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

43. 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.
44. 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).
45. 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 three financial years since then, the programme evolved to reflect the key requirements and priorities across the Council. New schemes were approved and added to the budget as per the bidding process, as well as existing schemes being re-phased between financial years to reflect changes in deliverability. The table below summarises the current position as reported to Cabinet in January 2017, amended to reflect further updated forecasts of expenditure and funding.

	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total £000's
Original Programme February 2014	42,619	12,222	11,414	14,296	80,551
Currently Reported Programme as at January 2017	27,197	25,783	37,798	23,063	113,841
Remaining One-Year Programme to be approved February 2017 (this report)	27,197	25,783	36,628*	36,724	126,332
<b>Change</b>	<b>0</b>	<b>0</b>	<b>(1,170)</b>	<b>13,661</b>	<b>12,491</b>
<b>Change Funded by:</b>					
General Capital Grant			0	0	<b>0</b>
Supported Borrowing			0	0	<b>0</b>
Unsupported/ Prudential Borrowing			(1,417)	938	<b>(479)</b>
Capital Receipts			2,292	(369)	<b>1,923</b>
Other External Grants			(1,928)	13,067	<b>11,139</b>
Revenue Contributions			(1,457)	0	<b>(1,457)</b>
S106 & Other Contributions			1,340	25	<b>1,365</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>(1,170)</b>	<b>13,661</b>	<b>12,941</b>

*\*forecast outturn*

46. The final remaining year of the capital programme is detailed in Appendix 8 and totals £36.724m. This 2017/18 budget includes slippage that has occurred against schemes in the 2016/17 programme, based on forecast outturn as at January 2017. 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 2017/18 programme.
47. In the table above, the increase of £13.661m to the 2017/18 budget compared to that reported at January Cabinet is made up of:
- £11m additional budget, funded by WG and NCC match, for the Ysgol Gyfun Gwent Is Coed project, recently approved by the WG capital panel. Whilst approved by Cabinet in September 2016, officers awaited confirmation from WG before increasing the capital programme;
  - £1.65m allocation, as a result of the WG approval to increase the 21<sup>st</sup> Century Schools programme, to commence the proposed Maes Ebbw project (with a further £1.65m allocated in 2018/19);
  - £1.011m slippage, largely relating to the Gypsy/ Traveller Site Development, currently forecast against the revised 2016/17 capital programme of £37.798m.

The remaining difference in 2016/17, of £159k, is due to various small anticipated underspends across a number of projects.

48. The final year of the programme as shown in Appendix 8 includes the following key schemes:
- The Ysgol Gyfun Gwent Is Coed provision and John Frost School redevelopment projects have remaining allocations of £16m and £2m respectively.
  - The Caerleon Lodge Hill Primary project will now gather pace, with additional funding approved by the WG capital panel, to be added to the 2018/19 allocation. The current profiling of £3.5m budget for 2017/18 remains unchanged.

- The Gypsy/ Traveller Site Development project continues, with £1.7m available via a combination of WG grant and NCC borrowing.
  - Annual allocations for Disabled Facility and Safety at Home Grants (£1.4m), asset maintenance (£1.5m before adjusting for slippage), and Highways Capitalised Maintenance (£500k).
  - Fleet replacement programme continues with £1.5m budget available in 2017/18.
  - £2.2m set aside for any Change/ Efficiency Programme schemes that may yet materialise.
49. The final capital settlement (made up of a general cash grant of £2.465m and supported borrowing funding of £4.051m) for 2017/18 from WG is a small reduction of 0.5% on the 2016/17 allocation. Due to uncertainty around spending plans from Central Government, WG no longer provide indicative settlement figures for the medium term, so assumptions of future reductions each year have been made in order to maintain prudent estimates for the purposes of MTFP forecasting.
50. External grant funding continues to be an important source of funding for specific capital schemes, with the 2017/18 programme being 27.9% grant funded. The Authority will continue to seek opportunities to secure external funding to finance both existing schemes and new priorities that may emerge.
51. As previously agreed by Cabinet, the majority of capital receipts funding is earmarked for use on the 21<sup>st</sup> Century Schools programme (a minimum of £9.5m for Band A including Ysgol Gyfun Gwent Is Coed is required to keep within current funding plans and assumptions), as match funding against WG grant. Of this allocation, approximately £3.6m will have been spent by the end of 2016/17 and, based on current projections for capital receipts to be achieved this year, an overall balance of circa £7.5m is estimated to remain as at 31<sup>st</sup> March 2017.
52. While the Council strategically continues to attempt to minimise its actual long term borrowing and maximise funding of the capital programme from applicable '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. In 2017/18, capital financing costs are estimated to account for approximately 8.5% of the overall revenue budget and further capital expenditure funded from borrowing would increase this figure.
53. With this in mind, work on developing the new four-year capital programme from 2018/19 will progress soon and will be driven, in the main, by emerging priorities in the new corporate plan and detailed plans which support it, the Band B 21C school programme, the Regional City Deal programme and Newport City centre regeneration schemes.

Officers have estimated the approximate level of the future capital funding envelope if the Council's capital financing budgets were to remain at today's level. However, as noted above, Corporate priorities and programmes will need to influence this alongside affordability. This is summarised in the table below.

	2018/19	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000	£'000
Ongoing schemes already approved	4,251	0	0	0	4,251
Annual Sums (eg. Asset, Fleet, Highways, IT replacements, Disabled Facilities Grants.)	5,245	5,245	5,245	5,245	20,980
Replacement of printers/ photocopiers	0	170	0	0	170
New Capital schemes	13,162	6,772	5,609	65,478	32,020
<b>Total Annual Capital Spend including Annual Capital Grant</b>	<b>22,658</b>	<b>12,187</b>	<b>10,854</b>	<b>11,723</b>	<b>57,421</b>

### City Deal

54. On 31<sup>st</sup> January 2017 the Council approved the next stage of the authority's commitment to the Cardiff Capital Region ("City Deal"). This is a significant commitment and will involve the council contributing a financial commitment of 9.8% to the project costs and based on initial financial modelling would result in the following financial commitments over the life of the programme:
- A revenue contribution of £20.7m over the 25 year programme
  - Year 1-5 revenue contribution of £1,045k
  - Revenue contribution peaking in year 11 at £1,307k in that year
55. Once the Joint Working Agreement is approved, councils will be 'locked-in' for a minimum period of five years. As with other Joint Committee's the legal implications set out that the cost of withdrawing are likely to be substantial and are effectively designed to keep councils locked in for the duration of the City Deal.
56. Included within the current MTFP is the initial revenue contributions to the Joint Committee, however the ongoing capital and capital financing costs are not currently included within the programme being approved, and will be included when there is more certainty around the delivery of the City Deal projects and the timing of capital expenditure. This will be reflected in the new capital programme for 2018/19 to 2021/22.

### **TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATORS 2017/18**

57. 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

Within this, the overarching strategy is to

- Limit the need to actually borrow cash by using the positive cash-flow the Council has to fund capital expenditure funded from borrowing, wherever possible;
- Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

58. The borrowing and investment 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. These were reviewed and discussed at the

Authority's Audit Committee on the 26<sup>th</sup> January 2017 and comments and observations were made in the following area;

- a. More information on actual borrowing and lending activity in following the strategy recommended. *This is included paragraph 66*
  - b. They reviewed the proposed change in MRP calculation noting that this was already an option within the approved strategy. *Comments made and feedback as shown in paragraph 86.*
59. 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.
60. Our detailed Treasury strategies for 2017/18 are included at Appendix 9. In addition, planned strategies to 2020/21 are also included, in line with the Council's 5 year Medium Term Plan. Key points of interest are summarised below.

### **Treasury Management Strategy**

61. The Council's overall Treasury Management Strategy takes into account, the current outstanding borrowing that it has due to capital expenditure incurred in the past, and links this into the future expectations for the Council around future capital expenditure to be incurred and future cash flows. As noted, the plan aims to limit new long term borrowing, wherever possible by using internal cash resources.
62. This Treasury Management Strategy highlights that the Council has an inherent need to borrow and therefore the borrowing strategy discussed below is an important part of the overall Treasury Management Strategy.
63. Due to the revenue implications of undertaking capital expenditure and the need to charge a Minimum Revenue Provision (MRP) for capital expenditure funded by borrowing, the strategy of the Council, is where possible, to limit increases in the capital expenditure financing costs in the Medium Term Financial Plan. 2017/18 is the final year of our current capital programme and work is continuing over the next few months to complete the next four year programme. The prudential indicators for these are shown in the appendix to this report.
64. In summary, following this strategy, the Council does not envisage taking out further long-term borrowing over the short-term, but in conjunction with advice from our Treasury Advisors, there will become a point where current borrowing will need to be re-financed, and a decision will need to be taken as to the appropriate timing of that borrowing. There are a lot of uncertainties on the level of borrowing or investment that will be required and this is dependent on the outcome of re-payment of any loans in relation to the Friars Walk development.

### **Borrowing Strategy**

65. The Council has significant long term borrowing requirements but in recent years, the strategy has been able to fund its capital expenditure from reducing investments rather than undertaking more expensive new borrowing i.e. using 'surplus cash'. 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.
66. The CFR (Capital Financing Requirement) in table 1 below highlights the Council's investment and borrowing requirement over the next four years. This shows that given the current capital programme and borrowing levels, the Council will have an inherent need to undertake new borrowing to re-finance borrowing maturing in the coming years. Following our strategy, this means:

- a. The Councils current strategy includes the need to replace existing long-term borrowing when this is re-payable, with new borrowing.
  - b. Timing of new borrowing would be uncertain and is dependent on a number of factors including, expected future interest rates, internal cash levels, earmarked reserves and levels of in year capital expenditure.
  - c. Advice will be taken from treasury advisors on the timing of undertaking new long-term borrowing, to ensure minimal risk and cost of carry to the authority.
  - d. The Councils overall treasury management strategy and decisions on the future capital programme are intrinsically linked to the Medium Term Financial Plan and the revenue implications of undertaking capital expenditure funded by borrowing i.e. increased MRP and interest costs. The future strategy must ensure this is affordable and prudent
  - e. The prudential indicators in Appendix D, show the prudent levels of capital financing and borrowing limits the Council are agreeing to for the treasury management strategy.
67. 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.
68. 2017/18 is the final year of the current four-year programme, and work has commenced on providing figures for the future programme from 2018/19 to 2021/22. Further work on this will be carried out over the next 6-12 months to determine the priority schemes that will be emerging. Appendix D shows the estimated capital expenditure for the Council over the medium term, assuming no additional capital financing costs are occurred, although the future capital programme will be driven by the emerging priorities of the Council.
69. There are currently on-going discussions on the Council's involvement in the 'City Deal' project which would involve the Council signing up to a significant capital investment over the next 20 years. There is still a significant amount of work required to finalise the full financial implications of the project, and an update will be brought to the Audit Committee, Cabinet and Council on the treasury management impact of any approval to proceed with the scheme in the future. The figures for City Deal have not been included in any estimates on capital expenditure or CFR in Appendix D, but the borrowing limits for 2017/18 are deemed sufficient if and when the Council signs up to the scheme.
70. 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.
71. In addition to normal planned capital expenditure, in December 2013 the Council approved a loan of up to £89.1million to Queensbury 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 to be paid off via a capital receipt upon sale of the development or re-financed if a sale does not conclude. Following any sale, 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, therefore have variable dates in which the loans are redeemable. £40 million of loans are redeemable in July 2017, with the balance being taken over shorter terms, with rolling one month terms. This would mean if the loan by QRE (Newport) Ltd is repaid before July 2017, for a short



period, the Council will have surplus funds to invest, unless we are able to redeem early at nil or minimal cost.

72. The table below shows the estimated Capital Financing Requirement / New Net Borrowing Requirement position for Newport City Council for 2016/17 to 2019/20:

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

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m
CFR	230.5	233.8	238.1	241.7	243.1
Less: External borrowing *	(223.3)	(187.7)	(146.3)	(144.9)	(103.4)
<b>Internal (over) borrowing</b>	<b>7.2</b>	<b>46.1</b>	<b>91.8</b>	<b>96.8</b>	<b>139.7</b>
Less: Usable reserves	(101.3)	(92.3)	(89.4)	(86.7)	(83.8)
Less: Working capital	90.7	7.7	7.7	7.7	7.7
<b>Investments / (New Borrowing)</b>	<b>3.4</b>	<b>38.5</b>	<b>(10.1)</b>	<b>(17.8)</b>	<b>(63.6)</b>
<b>Net Borrowing Requirement</b>	<b>219.9</b>	<b>149.2</b>	<b>156.4</b>	<b>162.7</b>	<b>167.0</b>

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

73. As the table shows, the inherent 'need to borrow' as shown by the CFR is predicted to be £64 million by March 2020. The significant reduction in the CFR between 2015/16 and 2016/17, and again to 2017/18 is due to the anticipated repayment of the loan in relation to the Friars Walk development. This borrowing would need to be refinanced if the sale did not proceed.
74. Given **current** borrowing levels no additional long term borrowing is likely to be required during 2017/18. However, the Authority will be required to be flexible to borrow up to the Authorised Limit, as there will be uncertainty over the timing of the repayment of the outstanding loan in relation to Queensberry.
75. 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

76. 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. In 2017/18, 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.
77. **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.

- 78. 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 2017/18. 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.
- 79. **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 will invest in the following areas:

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 13 months	£10m 2 years	£5m 2 years	£5m 2 years	£5m 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	Not applicable	£10m	Not applicable	Not applicable
	6 months		25 years		
Pooled funds	Not applicable				

- 80. 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 C. 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.

81. A more detailed explanation of the different approved counterparty types are included in Appendix 1 but for the sake of clarity, the Council's investment strategy will, as per the Welsh Governments Investment Guidance, give priority to security and liquidity and will aim to achieve a yield commensurate with these principles.

### **Minimum Revenue Provision (MRP) Policy**

82. Officers have completed a review of how we charge MRP in relation to unsupported borrowing. Appendix E shows the MRP Policy, and there will be no change to this policy, however Newport, as with the majority of local authorities, use option 3 the asset life method as a basis to charge MRP on unsupported borrowing.
83. Currently this is charge through equal instalments over the life of an asset on a straight line basis. Officers have completed a review to move from this method, to using the annuity method. The annuity method still has asset life as its main basis, but takes into account the time value of money. Therefore, the charges in year one will be less than the charge in say 25 years time, increasing year on year.
84. This method is prudent as it still keeps asset life as its main basis, and therefore the repayment will be the same over the life of the asset in both the equal instalment and annuity methods.
85. This has been discussed with Wales Audit Office, and they have indicated that this would be an acceptable change to the method of charging MRP on unsupported borrowing, and that it fits within the aspects of the Future Generations Act.
86. The change in method was also discussed at Audit Committee on 26<sup>th</sup> January 2017, where the following observations and comments were made:
  - a. Concern that this was putting off the day when we need to charge the MRP into the future was raised - While this observation is correct and the Council would gain from a saving in the early years and the cost would be increased in the future, the overall total payment would be the same and would be charged over the same period.
  - b. Observation that MRP charge would need to remain prudent – this was understood, and as discussed it is felt that this is still a prudent method of charging MRP due to the main principle of it being charged over the asset life.

Therefore, the change to the method of charging MRP from equal instalment method to annuity method will be applied from 2017/18.

### **Prudential Indicators**

87. 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.
88. Examples of our key indicators are noted below; again more detail is supplied at Appendix 9.

## Net Borrowing/Capital Financing Requirement

89. 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

90. This ratio shows how much of the Council's total revenue budget is used for capital financing costs, as a percentage. The ratio for 2017/18 is 8.4%.

## Timetable

The timetable for approval of the 2017/18 budget is as follows:

Cabinet agreed options as a basis for consultation	21st December 2016
Consultation period	21st December 2016 to 20th January 2017
Cabinet considers feedback from consultation and recommends an overall budget & resulting Council Tax, based on agreed final proposals	20 February 2017
Council approves the overall budget and Council Tax required	2nd March 2017

## 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 and considered**

The Council must approve a recommended Council Tax and 2017/18 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 detailed financial implications stemming from this report are contained within the body of the report, including the statement from the HoF on the robustness of the budget.

The Council is required to set Council Tax by 11<sup>th</sup> March but in reality, it will need to be done at this meeting as to delay further will mean bills cannot be produced in time to give the required notice before the first instalments of Council Tax are due. Therefore, it is important that the Council decides on the level of Council Tax at this meeting.

The MTFP shown in Appendix 8 points to a significant on-going financial challenge and is an issue facing all Local Authorities across the UK. This Council has been successful in balancing its annual budgets whilst also investing in key priority areas over the last 5 years but this is becoming increasingly difficult to do as most / significant efficiency savings and tactical savings available have been implemented over this time. Increasingly, a different approach will now be needed in going forward which takes a more strategic and medium term approach to ensure the Council can set a balanced budget over the medium term, matched to strategic changes in services.

## **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 Council's 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 in setting a balanced budget for the forthcoming financial year and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the overall budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. Therefore, the recommendations from Cabinet, as set out in the Report, are subject to approval by full Council, insofar as they relate to the overall budget and Council tax proposals for 2017/18.

However, the implementation of individual savings proposals within the business cases and the medium term financial plan are executive matters for the Cabinet, provided that they are in accordance with the general budget framework set by the Council. Therefore, although full Council can agree a different base budget (provided it is a balanced one, as required by law) and can set a different Council tax rate to that being recommended by Cabinet, Council cannot change any of the executive savings proposals and can only make recommendations to Cabinet to reconsider any of these matters.

## **Comments of Head of People and Business Change**

This budget is being set against a backdrop of prolonged pressure on public services as a combination of reduced income, rising demands on services, increased expectations, compliance with new legislation and the increasing costs of running services which has seen the delivery of over £45m of revenue savings over the last five years. This major reduction in funding has largely been accomplished with minimal impact on frontline services. However, the increasingly challenging financial situation the Council faces means that it is no longer possible to protect specific services in their entirety as we might have done in previous years. Nevertheless we remain committed to maintaining core services, minimising the impact on disadvantaged communities and groups and also investing strategically in key services that have the potential to contribute to our stated mission of “improving people’s lives”. We will continue to engage with our citizens and partners to incorporate their priorities into the councils plans based on firm evidence and look for innovate ways in which to deliver our services.

The budget options outlined in the report will have a direct impact on employees across the Council, including schools. Changes to structures and staffing will be required to make the necessary service changes and savings. This will require meaningful consultation with trade unions and affected employees. This is an ongoing process. The Council will aim to minimise the impact of the budget on employees across our services, however, given the increasing scale of the challenges facing the Council over the next few years and beyond, 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.

Over the last three years extensive public engagement has been undertaken in relation to setting service delivery priorities and identifying which services matter most to people, and contribute to their wellbeing. Cabinet have considered the results of this engagement and this has been reflected in the budget programs taken forward.

## **Comments of Cabinet Member**

The Chair of Cabinet and the Cabinet Member for finance, confirm they have 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 2017 meetings, as part of the wider budget proposals consultation undertaken and considered by Cabinet.

## **Equalities Impact Assessment and the Equalities Act 2010**

In finalising its budget proposals, Cabinet took account of the equalities impact assessments carried out, which was reported to them in their meeting on 20<sup>th</sup> February, 2017.

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

Wide consultation on the budget has been undertaken, as outlined in paragraphs 4-6 of the report

## Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations Act 2015, which came into force in April 2016 provides a framework for embedding sustainable development principles within the activities of Council and has implications for the long-term planning of finances and service provision. The business cases used to develop savings proposals include specific linkage with Future Generation Act requirements of the “five ways of working”. These pose the following questions:

**Integration** – *How does this proposal contribute towards the objectives of the key strategic documents of the Council i.e. Newport 2020, Corporate Plan, Single Integrated plan, Improvement plan etc.*

**Long Term** – *How does this proposal ensure that the short term and long term requirements are balanced in line with our key strategic plans. I.e. Newport 2020, Corporate Plan, Single Integrated Plan, Improvement Plan.*

**Prevention** – *How does this proposal prevent future problems occurring or getting worse in trying to meet our objectives.*

**Collaboration** - *How does this proposal demonstrate that we are working in collaboration either across the organisation or between organisations.*

**Involvement** – *How does this proposal involve key stakeholders in the development and implementation of this proposal.*

Similar revisions have been made to report templates and the Fairness and Equality Impact Assessment format.

The Well-being of Future Generations Act has involvement as one of the five ways of working under the sustainable development principle. Involvement in the development of this budget has included a four week period of public consultation and consultation with Trade Unions via the Employee Partnership Forum, with all Overview and Scrutiny Committees, with the Schools’ Forum, with the Council’s Fairness Commission and with representatives from the business and voluntary sector.

## Crime and Disorder Act 1998

N/A

## Consultation

Wide consultation on the budget has been undertaken, as outlined in paragraphs 4-6 of the report

## Background Papers

Cabinet report on budget February 20<sup>th</sup> 2017.

## Appendices

Appendix 1	Service Area Budgets
Appendix 2	Budget Investments
Appendix 3	Budget Savings
Appendix 4	Precepts / Council Tax
Appendix 5	Council Tax Resolution
Appendix 6	Capital programme/budget 2017/18
Appendix 7	Treasury Management Strategy and Prudential Indicators
Appendix 8	Medium Term Financial Plan (MTFP)

- Appendix 9 Financial Resilience, Earmarked Reserves & Invest to Save requirements - summary position
- Appendix 9a Financial Resilience Snapshot
- Appendix 9b Projected Earmarked Reserves
- Appendix 9c Reserves Policy
- Appendix 9d Summary of Invest to Save Spend and Forecast

Dated:



## APPENDIX 1 – SERVICE AREA BUDGETS

Summary Revenue Budget		
2017-18	2016/17 Current Budget	2017/18 Base Budget
	£'000	£'000
<b>PEOPLE</b>		
Children & Young People	21,436	21,433
Adult & Community Services	39,346	41,003
Education	14,575	14,859
Schools	89,232	90,297
	<b>164,589</b>	<b>167,592</b>
<b>PLACE</b>		
Regeneration, Investment & Housing	9,041	9,526
Streetscene & City Services	16,911	17,464
	<b>25,952</b>	<b>26,990</b>
<b>CHIEF EXECUTIVE</b>		
Directorate	552	557
Finance	2,742	2,719
People & Business Change	6,420	6,232
Law & Regeneration	6,521	6,494
	<b>16,235</b>	<b>16,002</b>
<b>CAPITAL FINANCING COSTS &amp; INTEREST</b>		
Capital Financing Costs MRP	10,813	11,032
Interest Payable	9,145	9,085
Interest Receivable	(37)	(37)
PFI Grants	8,262	8,315
	<b>28,183</b>	<b>28,395</b>
<b>SUB TOTAL - SERVICE/CAPITAL FINANCING</b>		
	<b>234,959</b>	<b>238,979</b>
<b>CONTINGENCY PROVISIONS</b>		
General Contingency	1,473	1,473
Centralised Insurance Fund	570	570
Non Departmental Costs	5	5
Other Income & Expenditure	4,110	4,488
	<b>6,158</b>	<b>6,536</b>
<b>LEVIES / OTHER</b>		
Discontinued Operations - pensions	1,790	1,577
Discontinued Operations - Ex Gratia Payments	2	2
Levies - Drainage Board, Fire service etc	8,208	8,207
Non distributed grants	-	-
CTAX Benefit Rebates	11,735	12,072
Charity Rate Relief	-	-
	<b>21,735</b>	<b>21,858</b>
<b>TRANSFERS TO/FROM RESERVES</b>		
Base budget - Planned Transfers to/(from) Reserves	1,086	(1,001)
	<b>1,086</b>	<b>(1,001)</b>
<b>TOTAL</b>	<b>263,938</b>	<b>266,372</b>
<b>Funded by</b>		
WAG funding (RSG & NNDR)	(209,142)	(208,250)
Council Tax	(54,720)	(58,122)
Council Tax Surplus	(76)	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>

## APPENDIX 2 – BUDGET INVESTMENTS

### (i) NEW BUDGET INVESTMENTS

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
<b>PEOPLE</b>						
1	Education (Schools)	<b>Ysgol Gyfun Gwent Is Coed:</b> This is the new Welsh Medium Secondary School, which is being established from September 2016. The schools is opening as a seedling school with intake of pupils up to the following numbers in September of 2016 (90), 2017 (120), 2018 (120), 2019 (120), 2020 (120) and 2021 and thereafter (150). The costs now built into the MTFP are those costs associated with the growth of the school, as it takes in the additional year groups, and significantly grows its curriculum towards year 11 and GCSE year groups. The initial operating costs in 16/17 have been met through a school reserve, which has been exhausted covering the initial seven months of operation and set up.	0	202	271	275
2	Education (Schools)	<b>New ASD School Provision:</b> This is the new ASD Special School which is being established on the site of Gaer Primary School. The school building is due for completion in early 2017. The school is being built to accommodate 48 pupils and will be a 3-16 school. The MTFP assumes that the school will open with pupils in September 2017, and costs reflect full staffing and running costs of the school as demand indicates that the school should be full. Costs have been therefore indicated over two financial years to reflect the academic year trans versing the 17/18 and 18/19 financial years.	0	314	0	0
3	Education (Schools)	<b>New Jubilee Park Primary School:</b> This school will be established on the housing development of the former Alcan Site, and is being built by the developer as part of S106 agreements. The school will be a 1.5 FE school, with a nursery and LRB unit on site. The MTFP	0	393	225	90

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
		assumes that the school will open in September 2017 as a seedling school with cohorts of up to 45 pupils being admitted each year until all year groups are admitted. The costs that are therefore built into the MTFP are those costs associated with the growth of the school.				
4	Education (Schools)	<b>New Llanwern Village Primary School:</b> This school will be established on the housing development of the former steelworks Site, and is being built by the developer as part of S106 agreements. The school will be a 2 FE school, with a nursery and LRB unit on site. The MTFP assumes that the school will open in September 2022 as a seedling school with cohorts of up to 60 pupils being admitted each year until all year groups are admitted. The costs that are therefore built into the MTFP are those costs associated with the growth of the school.	0	0	0	0
5	Education (Schools)	<b>New West Glan Lllyn Primary School:</b> This school will be established on the housing development at St Modwens, and is being built by the developer as part of S106 agreements. The school will be a 2 FE school, with a nursery and LRB unit on site. The MTFP assumes that the school will open in September 2018 as a seedling school with cohorts of up to 60 pupils being admitted each year until all year groups are admitted. The costs that are therefore built into the MTFP are those costs associated with the growth of the school.	0	519	411	122
6	Education (Schools)	<b>New Primary School:</b> This school will be established on the housing development at the Whiteheads site, and is being built by the developer as part of S106 agreements. The school will be a 2 FE school, with a nursery and LRB unit on site. The MTFP assumes that the school will open in September 2020 as a seedling school with cohorts of up to 60 pupils being admitted each year until all year groups are admitted. The costs that are therefore built into the MTFP	0	0	0	519

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
		are those costs associated with the growth of the school.				
7	Education (Schools)	<b>New Nursery units:</b> Additional Nursery units are being developed for additional pupil demand on for Primary School Sites, these being Llangstone, Mount Pleasant, Marshfield and Pentrepoeth, costs put into the MTFP are for associated costs of running the units with up to 20 FT places in one school, and 16 places in the other three.	0	0	0	0
8	Education (Schools)	Further funding for Schools following consultation. Funded from underspend in current 16/17 year which will be reserved for this purpose. This funding will be reviewed as part of the 18/19 budget.	1,100	0	0	0
9	Adult & Community Services	<b>Double Handling Pressure</b> - £300k 16/17 savings project that the service area is unable to achieve in their entirety.	150	0	0	0
10	Adult & Community Services	<b>Supporting People Grant Reductions:</b> Due to the application of the pricing policy of LD supported living following WG review. £726k budget pressure profiled over next three years.	300	150	276	0
11	Adult & Community Services	<b>Underlying budget deficit in Community Care.</b>	400	0	0	0

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
12	Adult & Community Services	<b>Capital Limit</b> - one of the Government's top six 'Taking Wales Forward' commitments is to uplift the capital limit as it applies in residential care charging from £24,000 to £50,000. No commitment has been made as to the timing of this, or how the uplift should be introduced (in one go or on an incremental basis).	324	TBC	TBC	TBC
13	Adult & Community Services	<b>Specific grants transferred into settlement:</b> Delivering Transformation Grant.	144	0	0	0
<b>PLACE</b>						
14	Regeneration, Investment & Housing	<b>Play Development</b> - legislative changes and reductions in grant have resulted in increasing costs.	25	0	0	0
15	Regeneration, Investment & Housing	<b>Homelessness</b> - Additional pressures resulting from increased statutory duties under the Housing (Wales) Act 2014 and increased costs associated with the management of private sector leasing scheme.	50	0	0	0
16	Regeneration, Investment & Housing	<b>Provision Market</b> - significant under recovery of income from the market.	126	0	0	0
17	Regeneration, Investment & Housing	<b>Disabled Facilities Grant (DFG)</b> - provision of the Disabled Facility Grants (DFG) service in the private sector housing department.	90	0	0	0

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
18	Regeneration, Investment & Housing	<b>NDR Property valuation</b> from April 2017.	72	0	0	0
19	Regeneration, Investment & Housing	<b>RSG New responsibility</b> – Homelessness Prevention	321	0	0	0
20	Streetscene & City Services	<b>Landfill site income target</b> - Assumed additional income in 16/17 has not been realised as a result of commercial operators taking waste to the new PG incineration plant.	250	TBC	TBC	TBC
21	Streetscene & City Services	<b>Waste Strategy</b> – Reduction in waste grant	0	269	393	511
<b>CORPORATE</b>						
22	Corporate	<b>Public Sector Broadband Aggregation (PSBA)</b> - Introduction of new method of core cost reallocation which has led to an increased cost to the Council. PSBA transformation exercise is currently underway to transform both the core and the connectivity of each organisation which means that a number of circuits will have to be provisioned. The revenue costs to the Council will increase but these are yet to be determined. The ongoing upgrades will be funded by the Council post march '18 - the financial costs of this are yet to be determined.	34	0	0	0
<b>NON SERVICE</b>						

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
23	Non - Service	<b>New Ways of Working</b> - Undelivered savings target relating to previous years.	547	0	0	0
24	Non – Service	<b>Apprenticeship Levy</b> - New government initiative announced in the 2015 Summer Budget. Levy is to be applied to total pay bill for large employers across all industries. The government is introducing the apprenticeship levy to help fund three million new apprenticeships by 2020.	316	0	0	0
25	Non - Service	<b>Pension Deficit</b> - Market conditions have continued to worsen for funds and the deficit is likely to increase from £47bn since the last valuation by around £20bn. The exact increase of individual employer contributions are to be negotiated once the details of the LGPS triennial valuation have emerged. 1% increase currently assumed, however, final details not due to be confirmed until Summer 2016.	0	860	660	660
26	Non - Service	<b>City Deal</b> – Contribution to funding	0	100	0	0
<b>NEW INVESTMENT TOTAL</b>			<b>4,249</b>	<b>2,807</b>	<b>2,236</b>	<b>2,177</b>



## (ii) AGREED/ REVISED INVESTMENTS

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
<b>PEOPLE</b>						
27	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.	0	0	0	0
28	Education (Schools)	<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.	0	266	263	550
29	Education (Schools)	<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.	0	462	466	162
30	Education (Schools)	<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	40	0	0	0

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
		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.				
31	Adult & Community Services	<b>Adults - Demographic Growth.</b> Funding based on current trends and demographic forecasts.	137	157	169	0
32	Adult & Community Services	<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.	57	297	180	0
33	Children & Young People Services	<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. Based on end of May 2016 projection Kinship budget is anticipated to underspend therefore no growth required in 17/18.	0	100	0	0
34	Children & Young People Services	<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. June 16 forecasts anticipate a £426k overspend in this area.	400	0	0	0

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
35	Children & Young People Services	<b>New legislation/Regulation - Fostering 'When I'm Ready'/Leaving Care</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.	141	187	163	150
<b>NON-SERVICE</b>						
36	Non-Service	<b>Non-teaching staff increments</b>	717	777	0	0
37	Non-Service	<b>Teaching staff increments</b>	308	759	607	486
38	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 30% of this potential cost which equates to £0.507m.	110	0	0	0

Unique ID	Service Group	Description	17/18	18/19	19/20	20/21
			£'000	£'000	£'000	£'000
39	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.	0	1,000	1,000	1,000
40	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.	0	200	0	0
41	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. Contracts & Commissioning manager has advised to reduce down from initial estimate and advised 5% annual increase would be passed to external providers.	447	472	498	525
<b>AGREED/REVISED INVESTMENT TOTAL</b>			<b>2,357</b>	<b>4,677</b>	<b>3,346</b>	<b>2,873</b>
<b>BUDGET INVESTMENT TOTAL</b>			<b>6,606</b>	<b>7,484</b>	<b>5,582</b>	<b>5,050</b>

## APPENDIX 3 – BUDGET SAVINGS

### (i) NEW BUDGET SAVINGS FOR CONSULTATION

#### Cabinet

Unique ID	Service Group	Proposal	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact FTE
<b>PEOPLE</b>							
CF171801	Children & Young People Services	Realignment of funding for children's preventions services	55	0	0	0	2
AS171810	Adult & Community Services	Review of charging policy within Adult Services	181	0	0	0	0
EDUC171802	Education (Schools)	Cease funding to the Learning Support Centres in eight secondary schools	256	184	0	0	16
EDUC171804	Education (Schools)	To Cease funding and close the Learning Resource Base in Llanwern High School	79	56	0	0	4
<b>NEW BUDGET SAVINGS TOTAL - Cabinet</b>			<b>571</b>	<b>240</b>	<b>0</b>	<b>0</b>	<b>22</b>

Cabinet Member

Unique ID	Service Group	Proposal	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact FTE
<b>PEOPLE</b>							
CF171804	Children & Young People Services	Reduction of a post in Integrated Family Support Services	24	0	0	0	1
AS171808	Adult & Community Services	Review of Supporting People Programme's Grant (SPPG) funding contribution to Social Services	300	150	0	0	0
<b>PLACE</b>							
SS171804	Streetscene & City Services	Withdrawal of bus service X16 as a supported service and re-tender of evening and Sunday services to achieve better value.	69	0	0	0	0
<b>CORPORATE</b>							
FIN171804	Finance	Re-focus of the Strategic Procurement Function.	28	0	0	0	1
PBC171803	People & Business Change	Review of the social care training unit provision.	40	0	0	0	0
<b>NEW BUDGET SAVINGS TOTAL – Cabinet Member</b>			<b>461</b>	<b>150</b>	<b>0</b>	<b>0</b>	<b>2</b>
<b>NEW BUDGET SAVINGS TOTAL</b>			<b>1,032</b>	<b>390</b>	<b>0</b>	<b>0</b>	<b>83.82</b>

(ii) NEW BUDGET SAVINGS IMPLEMENTED UNDER DELEGATED AUTHORITY

Head of Service

Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
<b>PEOPLE</b>							
CF171802	Children & Young People Services	Reduction of a post in the Fostering Team - In managing the workload in the fostering team we will make an efficiency saving of one social work post.	42	0	0	0	1
CF171803	Children & Young People Services	Reduce Specialist and Career foster carers - This is a proposal to cap recruitment to two fostering enhanced payments schemes at the present level.	48	0	0	0	0
AS171802	Adult & Community Services	Various Budget reductions - A reduction in various budgets across Adult & Community Services.	129	20	20	20	0
AS171806	Adult & Community Services	Review of the Council's In House Day Opportunities Service - This proposal outlines opportunities to reduce expenditure in the provision of internal day services.	20	60	0	0	3.5
AS171807	Adult & Community Services	Review of the Social Work requirements within the Hospital Social Work team - To review the Social Work requirement within the Hospital Team once the 'In Reach' Project is embedded within the hospital discharge process.	39	0	0	0	0



Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
AS171809	Adult & Community Services	Review and retendering of frailty care support team (Hospital Discharge service) - Remodelling the Frailty Care Support Team to improve capacity and minimise the number of handoffs between different teams and services	32	0	0	0	0
<b>PLACE</b>							
RIH171801	Regeneration, Investment & Housing	Transfer of the Access Supported Employment post to external funding - To transfer into external funding the Job Coach position that delivers the activities carried out through the Access Supported Employment Team, supporting people with disabilities to find employment.	25	0	0	0	1
RIH171803	Regeneration, Investment & Housing	Reallocation of external funding from the Flying Start programme to support the post of the Play Development Manager - Additional capacity has been identified within the play development manager's post that will complement the work of Flying Start and amalgamate / reduce 2 x FTE management posts into one.	22	0	0	0	0.5
RIH171805	Regeneration, Investment & Housing	Adult and Community Learning Transfer - To transfer Adult and Community Learning to Community Regeneration to maximise administrative and support efficiency, while developing the service to exploit commercial and funded training opportunities. Efficiency and generated income will see £32k increase in surplus above budget	31	0	0	0	1

Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
RIH171806	Regeneration, Investment & Housing	Deletion 0.6FTE Technical Support post - Development Services – reduction of Technical Building Control Support Team by 0.6 FTE.	6	6	0	0	0.6
RIH171807	Regeneration, Investment & Housing	Reduced Local development Plan (LDP) budget - review of base budget requirements - Development Services - Reduction of LDP budget by £15,000	15	0	0	0	0
RIH171809	Regeneration, Investment & Housing	Reduction of Building Control supplies and services budget and increase Building Control income - Reduction of Building Control supplies and services budget by £8,000 and Increase in Building Control Income by £17,000.	25	0	0	0	0
RIH171810	Regeneration, Investment & Housing	Reduction of Development Management supplies and services budget - Reduction of Development Management supplies and services budget by £12,000	12	0	0	0	0
RIH171811	Regeneration, Investment & Housing	Budget Efficiency - Reduction of the Centralised Property Rates - To reduce the centralised properties building rates budgets in alignment with the occupied number of buildings by Newport City Council.	95	0	0	0	0
RIH171812	Regeneration, Investment & Housing	Energy Efficiency - Energy Budget Savings and Reduce the Carbon Reduction Budget - Reduction in energy budgets and carbon reduction budgets as a result of improved monitoring, consumption and forecasting.	60	0	0	0	0

Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
RIH171813	Regeneration, Investment & Housing	Reallocation of external funding to create a shared resource - Currently the community regeneration service is supported by a number of finance and admin functions that predominantly are externally funded. We have reviewed the structure of Admin and finance officers and are currently restructuring the team.	12	0	0	0	0.5
SS171808	Streetscene & City Services	Collaboration of Passenger Transport Units of Newport City Council and Monmouthshire County Council - Monmouthshire County Council are providing management support to the passenger transport unit, the proposal is to take this forward with a full collaboration of this service between the two local authorities to achieve savings for both authorities.	14	0	0	0	0.4
SS171810	Streetscene & City Services	Review of lodges within Streetscene portfolio - To implement the findings of a property valuation, currently being undertaken by Newport Norse, of the occupied and empty lodge buildings within the Parks and Cemeteries of Streetscene. To bring residential rentals into line with appropriate market level for condition and age of the property.	10	10	0	0	0
SS171813	Streetscene & City Services	Provision of car parking facilities to Aneurin Bevan University Health Board (ABUHB) - Part one and part two - This business case confirms an external income opportunity for the provision of car parking spaces at Park Square car park via a negotiated contract	39	39	0	0	0

Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
SS171815	Streetscene & City Services	Southern Distributor Road (SDR) operation and maintenance contract award - Part one and part two - To report on the income generation following the successful award of the operating and maintenance contract for the SDR	40	10	0	0	-4 (increase)
SS171816	Streetscene & City Services	Removal of vacant posts from the Green Services Establishment - Removal of the vacant posts from the financial establishment of Countryside, Parks & Open spaces for 2016/17.	99	0	0	0	4.5
<b>CORPORATE</b>							
FIN171801	Finance	Centralisation of Accountancy Assistants - To centralise accountancy assistants within the service, provide more focus on tasks and review working practices, thereby allowing a reduction in the number of accountancy assistants by 2 FTE	0	46	0	0	2
FIN171802	Finance	Restructure of 'Place' Finance Business Partner - To re-structure Place accountancy team with resulting reduction in staff resource of 0.5FTE	28	0	0	0	0.5
FIN171803	Finance	Restructure of Internal Audit and revisions to the operating model - Reduced internal audit work across the Council, thereby allowing for a reduction in Internal Audit staffing establishment by 1 FTE	21	0	0	0	1

Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
FIN171805	Finance	Increase council tax collection rate - When setting C Tax, an allowance for non-collection is incorporated into the process. The proposal is to reduce this allowances, thereby, from the same level of C Tax, increase funding / income from C Tax by increasing the collection rates– 0.1% in 2017/18 and 2018/19 and 0.05% in 2019/20.	62	62	31	0	0
PBC171801	People & Business Change	Reduction of HR budget	20	0	0	0	1.5
PBC171802	People & Business Change	Review of partnership team structure - Review the structure of the partnership team releasing interim funding.	27	0	0	0	0
PBC171804	People & Business Change	Digital savings - Digital cost savings primarily in the areas of mail and print facilitated by Xerox Mail “FlexiMail” solution and new Multi-Function Device (MFD) print contract.	61	0	0	0	1
PBC171805	People & Business Change	Business Improvement & Performance Team (BIPT) - Income generation	48	0	0	0	0

Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
LR171805	Law & Regulation	Public protection structure review - A review of the Public Protection Structure to create multidisciplinary service teams within the service to increase resilience and to provide a more joined up service to the residents and businesses of Newport	38	121	0	0	6
LR171807	Law & Regulation	Restructure of Public Relations (PR)/ Communication and Democratic services - To amalgamate the PR/Communications and Democratic Services teams under a single management structure and with combined, integrated teams to provide greater resilience	59	0	0	0	1
<b>NON – SERVICE</b>							
NS171801	Non-Service	<b>Municipal Mutual Insurance (MMI)</b> - Removal of contribution to MMI reserve - Remove the contribution to the MMI reserve as the current level is deemed sufficient for future calls on the Council.	250	0	0	0	0
NS171802	Non-Service	<b>MRP/ Interest budgets</b> - Expected interest rate savings when bonds mature - A large number of the bonds the Council have are due to mature in the 2019/20 financial year. Due to the current low level of interest rates, when these are re-financed there will be significant savings on the financing cost of these bonds	0	0	1,500	0	0
NS171803	Non-Service	Surplus energy budgets - Remove surplus energy budget held centrally	263	0	0	0	0

Unique ID	Service Group	Proposal – Summary Description	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
NS171804	Non-Service	Net saving resulting from HoS restructure and pay and grading review - Remove the budget in relation to the net savings resulting from the Head of Service restructure and Pay and Grading Review within non service.	48	0	0	0	0
NS171805	Non-Service	Review of levies budgets - To reduce the budgets for both Non-operational Pensions and South Wales Fire and Rescue Levy.	212	0	0	0	0
NS171806	Non-Service	Council Tax Reduction Scheme	400	0	0	0	0
<b>DELEGATED HEAD OF SERVICE BUDGET SAVING TOTAL</b>			<b>2,352</b>	<b>374</b>	<b>1,551</b>	<b>20</b>	<b>22</b>

(iii) BUDGET SAVINGS PREVIOUSLY APPROVED/ REVISED

Service Group	Proposal	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000
Education	<b>Joint Working with Social Services</b> - Anticipated saving in respect of reduced out of county placements and potential to income generate through offering school places across Gwent. This saving has been profiled in line with the opening of the new Autistic Spectrum Disorder school.	0	0	0	0

Service Group	Proposal	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000
Education	<b>Home to School Transport</b> The home to school transport distance was changed from the discretionary three miles to the statutory limit of two miles in September 2014. It only applies to new pupils as they enter secondary school.	60	0	0	0
Regeneration, Investment & Housing	<b>Property Services</b> - The service is now being delivered by a joint venture company.	106	0	0	0
Streetscene & City Services	<b>Prosiect Gwyrd</b> - Commencing 1 April 2016. Associated landfill site savings and additional income generated from external customers	0	0	0	0
Streetscene & City Services	<b>Commercial Waste</b> - Additional income opportunities by allowing more commercial waste to be deposited at the landfill site.	0	0	0	0
Finance	<b>Council Tax &amp; Non-Domestic Rates (NDR): Implement e-transactions and e-billing</b> To increase the volume of online transactions, especially e-billing, leading to reduced billing and postage costs.	5	0	0	0
Law & Regulation	<b>Warden Service</b> Increase proactive fixed penalty enforcement work, increasing income from fines.	5	0	0	0
Non Service	<b>Council Tax 1%</b> This is the additional income from a 1% council tax rise across the period of the medium term financial plan	0	0	0	0
CS & DI	<b>Information Governance</b> - Reduce postage budget by 7% (over a two	5	0	0	0



Service Group	Proposal	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000
	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).				
CS & DI	<b>Information Governance</b> - Reduce budget for external storage of documents. Documents previously held in storage externally have now been transferred to the internal modern records facility therefore reducing the cost in future	3	0	0	0
CS & DI	<b>Information Technology</b> - Budget reduction to reflect the Egress (secure email) sliding scale of charges	29	0	0	0
CS & DI	<b>Information Governance</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	0
Finance	<b>Internal Audit</b> - Reduction in Audit staffing resources	26	0	0	0
Finance	<b>Procurement and Payments</b> - Reduction of staff within the two teams	27	0	0	0
Law & Regulation	<b>Land Charges</b> - To increase the fee income projections for local land charges searches fees	25	0	0	0

Service Group	Proposal	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000
Law & Regulation	<b>Legal Services</b> - Reduction of staff within the Legal section	43	0	0	0
Law & Regulation	<b>Kennel Service</b> - Redesign the service at the kennels moving it towards more of a rehoming centre which drives income to eventually pay for its self	10	0	0	0
People & Business Change	<b>Voluntary Sector Grants</b> - The re-commissioning of voluntary sector organisation provision - replaces original PBC06 & RIH9	63	0	0	0
Adult & Community Services	<b>Promoting Independence</b> - LD Service Development and Reviews	531	0	0	0
Adult & Community Services	<b>Modernisation of Transport Provision</b>	104	0	0	0
Adult & Community Services	<b>Review of Telecare Service</b>	78	0	0	0
Adult & Community Services	<b>Improving the efficiency of Homecare and Extracare service</b>	90	0	0	0

<b>Service Group</b>	<b>Proposal</b>	<b>17/18 £'000</b>	<b>18/19 £'000</b>	<b>19/20 £'000</b>	<b>20/21 £'000</b>
Children & Young People Services	<b>Reduction in Social Worker posts</b>	144	144	0	0
Children & Young People Services	<b>Review of residential provision</b>	594	0	0	0
Children & Young People Services	<b>Review Voluntary Sector Contracts</b>	23	0	0	0
Streetscene & City Services	<b>Bus routes</b> - Removal of subsidy to support evening and Sunday bus services	69	0	0	0
Streetscene & City Services	<b>Trade Waste</b> - Review of charges and increase the number of contracts	90	0	0	0
Streetscene & City Services	<b>Waste</b> - Review of charging for special collections - applying a new pricing mechanism to ensure that the minimum charge covers the operating and disposal costs of the service	0	0	0	0
Streetscene & City Services	<b>Newport LIVE</b> - Efficiency savings from Newport Live operation	0	60	60	0
<b>Total agreed budget savings</b>		<b>2,191</b>	<b>216</b>	<b>60</b>	<b>0</b>

SAVINGS SUMMARY

Savings Decision Type	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	Staff Impact (FTE)
Cabinet Budget Savings	571	240	0	0	22
Cabinet Member Budget Savings	461	150	0	0	2
<b>New Budget Savings for consultation</b>	<b>1,032</b>	<b>390</b>	<b>0</b>	<b>0</b>	<b>24</b>
Delegated Head of Service Budget Savings	2,352	374	1,551	20	22
Budget Savings previously agreed/revised	2,191	216	60	0	25.4
<b>TOTAL BUDGET SAVINGS</b>	<b>5,575</b>	<b>980</b>	<b>1,611</b>	<b>20</b>	<b>71.4</b>

## APPENDIX 4 – PRECEPTS/ COUNCIL TAX

The funding required from Council Tax for the recommended draft 2017/18 budget is an increase of 3.50%. 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 2017/18, the tax base is 57,619.96 (2016/17 – 56,145.64).

### **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	266,372
Less WAG funding	208,250
Equals that which needs funding from Council Tax	58,122
	<b>£</b>
Divided by tax base (57,619.96) gives a Council Tax at Band D	1,008.72

### **Calculation of the Council Tax – The 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 The 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 2017/18, has set a precept of £13,185,752.00.

Authority	Budget requirement / Precept from Council Tax (£'000)	Tax Base	Council Tax at Band D		% Change
			2017/18	2016/17	
Newport City	58,122	57,619.96	£1,008.72	£974.61	3.50%
PCC for Gwent	13,186	57,619.96	£228.84	£220.06	3.99%

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

Community Council	Council Tax Base	2017/18 Precept (£)	Council Tax at Band D		% Change
			2017/18	2016/17	
Bishton	754	9,053.64	12.00	10.90	10.1%
Coedkernew	982	2,945.52	3.00	3.00	-
Goldcliff	185	2,966.56	16.00	15.00	6.7%
Graig	2,866	55,632.94	19.41	18.49	5.0%
Langstone	1,897	39,456.56	20.80	20.80	-
Llanvaches	242	6,044.75	25.00	25.00	-
Llanwern	595	7,500.00	12.61	17.00	-25.8%
Marshfield	1,514	27,243.36	18.00	18.00	-
Michaelstone - Y - Fedw	168	3,635.62	21.70	21.70	-
Nash	135	1,239.70	9.20	9.20	-
Penhow	449	11,552.77	25.73	21.22	21.3%
Redwick	113	2,734.19	24.16	24.16	-
Rogerstone	4,847	88,990.00	18.36	18.36	-
Wentlooge	353	4,247.95	12.04	12.00	0.3%

The Council Tax payable by households is the total of the Newport City Council, The Police and Crime Commissioner for Gwent 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 2017/2018, as recommended by the Cabinet on 20th February 2017 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 03 November 2016, the Head of Finance acting in accordance with that delegation calculated the following amounts for the year 2017/2018 in accordance with regulations made under Section 33(5) of the Local Government Finance Act 1992:-

(a) Council Tax Base

57,619.96 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	754
Coedkernew	982
Goldcliff	185
Graig	2,866
Langstone	1,897
Llanvaches	242
Llanwern	595
Marshfield	1,514
Michaelstone	168
Nash	135
Penhow	449
Redwick	113
Rogerstone	4,847
Wentlooge	353

3. That the following amounts be now calculated by the Council for the year 2017/2018 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-
  - (a) £405,507,621.61 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) £138,871,714.00 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) £266,635,907.61 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) £208,250,266.00 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 + NNDR***).
- (e) £1,013.29 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) £263,243.56 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	9,053.64
Coedkernew	2,945.52
Goldcliff	2,966.56
Graig	55,632.94
Langstone	39,456.56
Llanvaches	6,044.75
Llanwern	7,500.00
Marshfield	27,243.36
Michaelstone	3,635.62
Nash	1,239.70
Penhow	11,552.77
Redwick	2,734.19
Rogerstone	88,990.00
Wentlooge	4,247.95
	<b>263,243.56</b>

- (g) £1,008.72 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	1,020.72
Coedkernew	1,011.72
Goldcliff	1,024.72
Graig	1,028.13
Langstone	1,029.52
Llanvaches	1,033.72
Llanwern	1,021.33
Marshfield	1,026.72
Michaelstone	1,030.42
Nash	1,017.92
Penhow	1,034.45
Redwick	1,032.88
Rogerstone	1,027.08
Wentlooge	1,020.76

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.

NCC + Community Councils	Valuation Bands								
	A	B	C	D	E	F	G	H	I
	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p	£.p
Bishton	680.48	793.89	907.31	1,020.72	1,247.55	1,474.37	1,701.20	2,041.44	2,381.68
Coedkernew	674.48	786.89	899.31	1,011.72	1,236.55	1,461.37	1,686.20	2,023.44	2,360.68
Goldcliff	683.15	797.00	910.86	1,024.72	1,252.44	1,480.15	1,707.87	2,049.44	2,391.01
Graig	685.42	799.66	913.89	1,028.13	1,256.60	1,485.08	1,713.55	2,056.26	2,398.97
Langstone	686.35	800.74	915.13	1,029.52	1,258.30	1,487.08	1,715.87	2,059.04	2,402.21
Llanvaches	689.15	804.00	918.86	1,033.72	1,263.44	1,493.15	1,722.87	2,067.44	2,412.01
Llanwern	680.89	794.37	907.85	1,021.33	1,248.29	1,475.25	1,702.22	2,042.66	2,383.10
Marshfield	684.48	798.56	912.64	1,026.72	1,254.88	1,483.04	1,711.20	2,053.44	2,395.68
Michaelstone	686.95	801.44	915.93	1,030.42	1,259.40	1,488.38	1,717.37	2,060.84	2,404.31
Nash	678.61	791.72	904.82	1,017.92	1,244.12	1,470.33	1,696.53	2,035.84	2,375.15
Penhow	689.63	804.57	919.51	1,034.45	1,264.33	1,494.21	1,724.08	2,068.90	2,413.72
Redwick	688.59	803.35	918.12	1,032.88	1,262.41	1,491.94	1,721.47	2,065.76	2,410.05
Rogerstone	684.72	798.84	912.96	1,027.08	1,255.32	1,483.56	1,711.80	2,054.16	2,396.52
Wentlooge	680.51	793.92	907.34	1,020.76	1,247.60	1,474.43	1,701.27	2,041.52	2,381.77
All Other Parts of the City	672.48	784.56	896.64	1,008.72	1,232.88	1,457.04	1,681.20	2,017.44	2,353.68

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 2017/2018, that The Police and Crime Commissioner for Gwent 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:-

The 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	152.56	177.99	203.41	228.84	279.69	330.55	381.40	457.68	533.96

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 2017/2018 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	833.04	971.88	1,110.72	1,249.56	1,527.24	1,804.92	2,082.60	2,499.12	2,915.64
Coedkernew	827.04	964.88	1,102.72	1,240.56	1,516.24	1,791.92	2,067.60	2,481.12	2,894.64
Goldcliff	835.71	974.99	1,114.27	1,253.56	1,532.13	1,810.70	2,089.27	2,507.12	2,924.97
Graig	837.98	977.65	1,117.30	1,256.97	1,536.29	1,815.63	2,094.95	2,513.94	2,932.93
Langstone	838.91	978.73	1,118.54	1,258.36	1,537.99	1,817.63	2,097.27	2,516.72	2,936.17
Llanvaches	841.71	981.99	1,122.27	1,262.56	1,543.13	1,823.70	2,104.27	2,525.12	2,945.97
Llanwern	833.45	972.36	1,111.26	1,250.17	1,527.98	1,805.80	2,083.62	2,500.34	2,917.06
Marshfield	837.04	976.55	1,116.05	1,255.56	1,534.57	1,813.59	2,092.60	2,511.12	2,929.64
Michaelstone	839.51	979.43	1,119.34	1,259.26	1,539.09	1,818.93	2,098.77	2,518.52	2,938.27
Nash	831.17	969.71	1,108.23	1,246.76	1,523.81	1,800.88	2,077.93	2,493.52	2,909.11
Penhow	842.19	982.56	1,122.92	1,263.29	1,544.02	1,824.76	2,105.48	2,526.58	2,947.68
Redwick	841.15	981.34	1,121.53	1,261.72	1,542.10	1,822.49	2,102.87	2,523.44	2,944.01
Rogerstone	837.28	976.83	1,116.37	1,255.92	1,535.01	1,814.11	2,093.20	2,511.84	2,930.48
Wentlooge	833.07	971.91	1,110.75	1,249.60	1,527.29	1,804.98	2,082.67	2,499.20	2,915.73
All Other Parts of the City	825.04	962.55	1,100.05	1,237.56	1,512.57	1,787.59	2,062.60	2,475.12	2,887.64

**APPENDIX 6 – CAPITAL PROGRAMME 2017/18**

<b>SCHEME</b>	<b>2017/18 APPROVED £000's</b>	<b>NOTES</b>
<b>EDUCATION</b>		
STEP 4	247	Ongoing scheme
21C Schools - School Reorganisation - Lodge Hill New Build	3,518	Ongoing scheme
21C Schools - Capacity Building – Demountable Replacement	2,307	Ongoing scheme
21C Schools - Ysgol Gyfun Gwent Is Coed / John Frost	16,000	Ongoing scheme
John Frost School - Additional Funding	2,000	Ongoing scheme
21C Schools - Special Sector Maes Ebbw	1,650	New scheme
Jubilee Park Primary FF&E	375	Ongoing scheme
<b>Total Education</b>	<b>26,097</b>	
<b>REGENERATION, INVESTMENT &amp; HOUSING</b>		
Gypsy Traveller Site Development	1,663	Ongoing scheme
City Centre Redevelopment CPO Schemes	66	Ongoing scheme
Renovation Grants	1,436	Annual allocation
Asset Management	1,664	Annual allocation
Central Library Structural Safety Works	320	Reprofiled existing allocation
<b>Total Regeneration, Investment &amp; Housing</b>	<b>5,149</b>	
<b>CUSTOMER SERVICES &amp; DIGITAL INNOVATION</b>		
Replacement of High Volume Printing/ Copying Machines	210	Cyclical requirement
MFD Lease	0	Cyclical requirement
IT Replacement Schemes	200	Annual allocation
Corporate EDMS Rollout	9	Ongoing scheme
<b>Total Customer Services &amp; Digital Innovation</b>	<b>419</b>	

<b>SCHEME</b>	<b>2017/18 APPROVED £000's</b>	<b>NOTES</b>
<b>PEOPLE &amp; BUSINESS CHANGE</b>		
Implementation of HR self-serve System	85	Ongoing scheme
Preparatory Works Allocation	100	Annual allocation
Amount Reserved for Change & Efficiency Programme	2,200	TBD
<b>Total People &amp; Business Change</b>	<b>2,385</b>	
<b>LAW AND REGULATION</b>		
Schemes yet to be determined	0	No projects identified
<b>Total Law and Regulation</b>	<b>0</b>	
<b>ADULT &amp; COMMUNITY SERVICES</b>		
Appliances/Equipment for Disabled	165	Annual allocation
Telecare Service Equipment	30	Annual allocation
<b>Total Adult &amp; Community Services</b>	<b>195</b>	
<b>CHILDREN &amp; YOUNG PEOPLE SERVICES</b>		
Schemes yet to be determined	0	No projects identified
<b>Total Children &amp; Young People Services</b>	<b>0</b>	
<b>STREETSCENE &amp; CITY SERVICES</b>		
Fleet Replacement Programme	1,500	Annual allocation
Decommissioning of Public Toilets	20	Reprofiled existing allocation
Llisbury Recreation Ground Changing Rooms	189	Ongoing scheme
Maplewood Play Area	176	Ongoing scheme
Maintenance, Footways and Street Lighting	500	Annual allocation
Pye Corner Development Works	26	Ongoing scheme
Peterstone Sewage Scheme	68	Reprofiled existing allocation
<b>Total Streetscene &amp; City Services</b>	<b>2,479</b>	

<b>SCHEME</b>	<b>2017/18 APPROVED £000's</b>	<b>NOTES</b>
<b>TOTAL EXPENDITURE</b>	<b>36,724</b>	
<b>Funded By:</b>		
General Capital Grant	2,465	
Supported Borrowing	4,051	
Unsupported/ Prudential Borrowing	6,566	
Capital Receipts	6,957	
External Grants	16,110	
Revenue/ Reserve Contributions	0	
S106 & Other Contributions	365	
Finance Lease	210	
<b>TOTAL FUNDING</b>	<b>36,724</b>	

## APPENDIX 7 – TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATORS

### Prudential Code Indicators, Minimum Revenue Policy, Treasury Management and Investment Strategy Statements 2017/18

#### 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 March 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.

**Revised Strategy:** In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

#### External Context

##### Economic Background

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

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

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

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

### **Credit outlook:**

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

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

### **Interest rate forecast:**

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

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

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

### **Local Context**

On 31 December 2016, the Authority held £215.9 million of borrowing and £8.2 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**

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m
CFR	230.5	233.8	238.1	241.7	243.1
Less: External borrowing *	-223.3	-187.7	-146.3	-144.9	-103.4
<b>Internal (over) borrowing</b>	<b>7.2</b>	<b>46.1</b>	<b>91.8</b>	<b>96.8</b>	<b>139.7</b>
Less: Usable reserves	-101.3	-92.3	-89.4	-86.7	-83.8
Less: Working capital	90.7	7.7	7.7	7.7	7.7
<b>Investments / (New Borrowing)</b>	<b>3.4</b>	<b>38.5</b>	<b>-10.1</b>	<b>-17.8</b>	<b>-63.6</b>
<b>Net Borrowing Requirement</b>	<b>219.9</b>	<b>149.2</b>	<b>156.4</b>	<b>162.7</b>	<b>167.0</b>

\* 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 2017/18.

### **Borrowing Strategy**

The Authority currently holds £215.9 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 2017/18, but this is dependent on the outcome of the repayment or refinancing of the Queensberry loan. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the recommended authorised limit for borrowing of £354 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 modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 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 £30m 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. £25m of these LOBOS have options during 2017/18, 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.

### **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 2017/18, the investment balances could, for a short period, 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. Where balances are expected to be invested for more than a year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sums invested.

Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2017/18. This is especially the case for any surplus funds available for investment following the repayment of the Queensberry loan.

- **Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit level is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- **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.
- **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 the 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.
- **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 £8.6 million and principal of £1.3 million is expected to be paid in 2017/18. In addition to this, principal of c£69m in relation to Queensberry loans (as detailed in Appendix B) will be paid or re-financed in 2017/18 depending on the status of the sale. 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 2016**

### **Underlying assumptions:**

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely

### **Forecast:**

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.





## Appendix B – Existing Investment & Debt Portfolio Position

	<b>31/12/16 Actual Portfolio £m</b>
<b>External Borrowing:</b>	
PWLB – Fixed Rate	71.79
Market Loans	35.00
Stock Issue	40.00
Temporary loans - Queensberry	69.08
Other Soft Loans	0.00
<b>Total External Borrowing</b>	<b>215.87</b>
<b>Other Long Term Liabilities:</b>	
PFI	49.51
Finance Leases and other	0.13
<b>Total Gross External Debt</b>	<b>265.51</b>
<b>Investments:</b>	
Short-term investments	8.20
Long-term investments	0.00
<b>Total Investments</b>	<b>8.20</b>
<b>Net Debt</b>	<b>257.31</b>

## Appendix C – Operational Investment Counterparties List

### COUNTERPARTY LIMITS FOR BANKING – UK INSTITUTIONS

	Unsecured Investments		Secured Investments	
Counterparty - Banking UK Institutions	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	Suspended		£10,000,000	2 years

\* based on advice from Arlingclose

## Appendix D - Prudential Indicators 2017/18 – 2019/20

### 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 2017/18, 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>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate*</b> £m	<b>2019/20 Estimate*</b> £m	<b>2020/21 Estimate*</b> £m
<b>Total</b>	<b>36.6</b>	<b>36.7</b>	<b>22.7</b>	<b>12.2</b>	<b>10.9</b>

\* *The Capital Programme for 2018/19 to 2021/22 is currently being assessed and compiled. The estimated capital expenditure included in the figures above, give an indication of the level of capital expenditure that could be allowed in the financial year which will keep the revenue costs within the current MRP headroom. The estimated capital expenditure does not currently include, as shown in the table 3.2 below, any estimates for specific grants (which could be significant) or any revenue contributions, which would have no impact on the CFR or borrowing. This has been updated since the report to Audit Committee due to the ongoing work on the 2017/18 programme which is discussed in the main body of the report.*

3.2 Capital expenditure will be financed or funded as follows:

<b>Capital Financing</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>	<b>2020/21 Estimate £m</b>
Capital receipts	3.5	7.0	0.4	0.0	0.0
Government Grants	2.5	2.5	2.2	2.0	2.0
Other Specific Grants	13.6	16.1	2.7	0.0	0.0
S106 Contributions	3.9	0.4	0.0	0.0	0.0
Revenue contributions	1.8	0.0	0.0	0.0	0.0
<b>Total Financing</b>	<b>25.3</b>	<b>26.0</b>	<b>5.3</b>	<b>2.0</b>	<b>2.0</b>
Supported borrowing	4.1	4.0	4.0	3.8	3.6
Unsupported borrowing	7.2	6.5	13.4	6.2	5.3
Finance Leases	0.0	0.2	0.0	0.2	0.0
<b>Total Funding</b>	<b>11.3</b>	<b>10.7</b>	<b>17.4</b>	<b>10.2</b>	<b>8.9</b>
<b>Total Financing and Funding</b>	<b>36.6</b>	<b>36.7</b>	<b>22.7</b>	<b>12.2</b>	<b>10.9</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.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>	<b>2020/21 Estimate %</b>
<b>Total</b>	8.6%	8.4%	8.4%	7.8	7.8%

#### 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.

<b>Capital Financing Requirement</b>	<b>2015/16 Actual £m</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>
<b>Total CFR</b>	230.5	233.8	238.1	241.7	243.1

#### 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.

<b>Actual External Debt as at 31/03/2016</b>	<b>£000</b>
Borrowing	230,008
Other Long-term Liabilities	49,656

<b>Total</b>	<b>279,664</b>
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## 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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>	<b>2019/20 Estimate £</b>	<b>2020/21 Estimate £</b>
Increase in Band D Council Tax*	1.93	3.18	-2.78	3.43

\*Assumes a 4% increase in Council Tax although no decision has been taken to this effect. The Friars Walk Loan have been excluded from this 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>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Borrowing	308	276	283	287
Other Long-term Liabilities	46	44	43	42
<b>Total</b>	<b>354</b>	<b>320</b>	<b>326</b>	<b>329</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>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Borrowing	288	256	263	267
Other Long-term Liabilities	46	44	43	42
<b>Total</b>	<b>334</b>	<b>300</b>	<b>306</b>	<b>309</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 31/03/16 %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>	<b>2020/21 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 31/12/16 %</b>	<b>Lower Limit for 2017/18 %</b>	<b>Upper Limit for 2017/18 %</b>
under 12 months	46%	0%	80%
12 months and within 24 months	0%	0%	70%
24 months and within 5 years	21%	0%	70%
5 years and within 10 years	17%	0%	50%
10 years and within 20 years	6%	0%	30%
20 years and within 30 years	0%	0%	20%
30 years and within 40 years	6%	0%	20%
40 years and within 50 years	2%	0%	20%
50 years and above	2%	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.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
	5	5	5	5



## **Appendix E – Minimum Revenue Provision (MRP) Statement 2017/18**

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 Queensbury 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 – MEDIUM TERM FINANCIAL PLAN (MTFP)

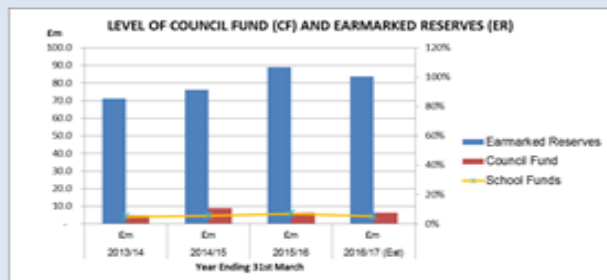
	2017/18	2018/19	2019/20	2020/21	TOTAL
<b>Pressures</b>					
Inflation	2,151	3,501	3,586	3,682	<b>12,922</b>
Other	6,606	7,484	5,582	5,050	<b>24,722</b>
<b>Total Pressures</b>	<b>8,758</b>	<b>10,985</b>	<b>9,169</b>	<b>8,732</b>	<b>37,644</b>
<b>Technical Adjustments</b>	- <b>1,138</b>	-	-	-	- <b>1,138</b>
(INCREASE)/DECREASE IN REVENUE SUPPORT GRANT(0.43% 17/18, assumed 1.5% 18/19 and thereafter	<b>892</b>	<b>3,090</b>	<b>3,044</b>	<b>2,998</b>	<b>10,024</b>
Estimated Specific Grant - Social Care	- 353	-	-	-	- <b>353</b>
Increase in tax base - C. Tax @ 16/17 rate	- 1,299	-	-	-	- <b>1,299</b>
C. Tax @ 3.5% in 17/18 (4% thereafter)	- 1,965	- 1,985	- 2,005	- 2,025	- <b>7,982</b>
Less consequential increase in benefits	680	457	461	466	<b>2,064</b>
<b>GAP</b>	<b>5,575</b>	<b>12,547</b>	<b>10,668</b>	<b>10,171</b>	<b>38,960</b>
Savings	5,575	980	1,611	20	8,186
Balance - @ -0.43% WG reduction 2017/18 ( and 1.5% 2018/19 onwards)	<b>0</b>	<b>11,567</b>	<b>9,057</b>	<b>10,151</b>	<b>30,775</b>
Balance - @ -1.5% WG reduction	N/A	11,567	9,057	10,151	<b>30,774</b>
Balance - @ -1% WG reduction	N/A	10,547	11,107	12,180	<b>33,834</b>
Balance - @ -2% WG reduction	N/A	12,576	13,074	14,087	<b>39,737</b>

# APPENDIX 9a

## FINANCIAL SNAPSHOT REPORT - UPDATE TO FEBRUARY CABINET

The following tables, charts and figures give an indication of the financial resilience of the Council as per the Statement of Accounts.

### Level of Council Fund (CF) and Earmarked Reserves (ER)



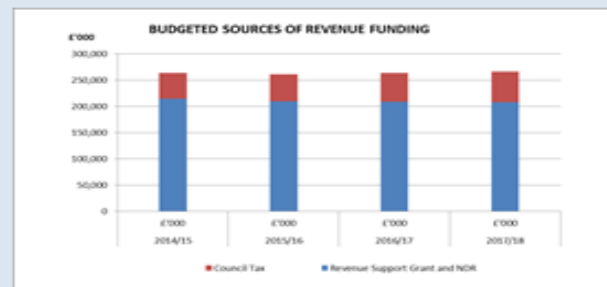
### Level of Reserves

	2012/13	2013/14	2014/15	2015/16	2016/17 (Est)
	£m	£m	£m	£m	£m
Earmarked Reserves	64.5	71.2	76.1	88.9	83.7
Council Fund	5.0	5.0	5.0	5.0	5.0
School Funds	4.4	4.2	4.8	5.0	4.3

### Budgeted Sources of Funding

	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000
Total Revenue Funding				
Revenue Support Grant and NDR	214,926	209,254	209,142	208,250
Council Tax	48,194	52,117	54,796	58,122

### Budgeted Revenue Funding Split



### Financial Performance and Ratios

Ratio	Calculation	2012/13	2013/2014	2014/2015	2015/2016
		£'000	£'000	£'000	£'000
Net Worth	(Assets - Liabilities)	520,68	54,261	44,714	61,240
Net Worth (as % of Pension Liab.)	(Assets - Liabilities)	286,222	280,878	286,814	247,585
Working Capital Ratio	(Current Assets - Current Liabilities) / (Current Liabilities)	0.88	0.79	0.89	1.02
Gearing Ratio	(Borrowing / Total Reserves)	44.7%	51.2%	48.9%	44.0%

The figures below shows the 16/17 forecast position for both revenue and capital.

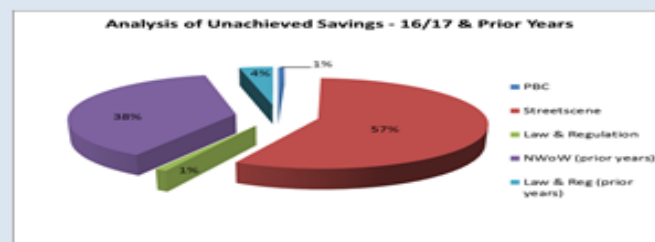
### 2016/17 December Revenue Position

Directorate	Net Expenditure Budget	Forecast	Variance	Variance
	£'000	£'000	£'000	%
Children & Young People	21,436	21,746	310	1
Adult & Community Services	39,346	39,609	263	1
Education	13,807	14,298	491	4
Schools	90,500	91,500	1,000	2
Regeneration, Investment & Housing	9,541	9,939	2	(0)
Streetscene & City Services	16,911	17,546	735	4
Corporate Services	16,235	15,883	352	(2)
<b>Total Directorates</b>	<b>266,776</b>	<b>269,821</b>	<b>3,045</b>	<b>1.47</b>
Capital Financing	28,183	28,101	(82)	(0)
Contingency/ Provisions	6,189	6,389	221	4
Levies / Other	21,735	20,434	(1,301)	(6)
Reserves / Transfer	1,086	(539)	(1,624)	(150)
<b>Total Budget</b>	<b>263,938</b>	<b>264,196</b>	<b>259</b>	<b>0.10</b>
Additional funding - CT surplus	(76)	(724)	(648)	
Projected Over/ (Under) spend			(389)	

### Revenue Savings Achieved and Unachieved (December FIP)



### Analysis of Unachieved Savings



### 2016/17 December Capital Position

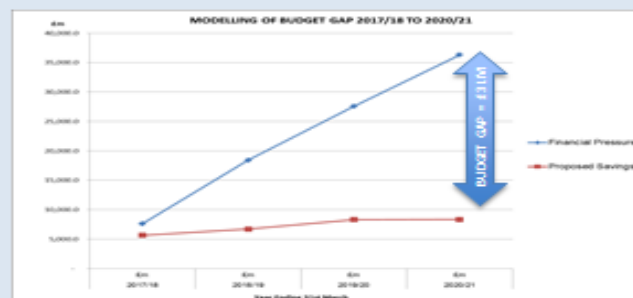
Directorate	Final Budget	Final Outturn	Variance	Variance
	£'000	£'000	£'000	Over/under
Education	18,599	19,217	(618)	748
Regeneration, Investment & Housing	12,008	11,878	130	-
Customer Services & Digital Innovation	1,014	921	93	(84)
People & Business Change	185	-	185	(100)
Law & Regulation	179	179	-	-
Adult & Community Services	736	736	-	-
Children & Young People Services	55	55	-	-
Streetscene & City Services	5,922	4,952	970	-
<b>Total Budget</b>	<b>37,798</b>	<b>37,548</b>	<b>250</b>	<b>165</b>

The tables below show the Medium Term Financial Plan (MTFP) and the risks facing the Council.

### MTFP Scenario (To be approved by February Cabinet)

	2015/16	2016/17	2017/18	2018/19	Total
	£'000	£'000	£'000	£'000	£'000
Technical Provisions	8,130	10,960	9,100	9,770	37,960
Technical Adjustments	(11,100)	-	-	-	(11,100)
Funding Reserves	200	2,000	2,000	2,000	6,000
Reserves Requirement Reduction	8,412	14,070	13,250	11,770	47,502
Unallocated specific grant - Social care	-	-	-	-	-
Revenue - Other Items	19,742	21,030	21,540	21,540	83,852
Technical Provisions	8,130	10,960	9,100	9,770	37,960
Technical Adjustments	(11,100)	-	-	-	(11,100)
Funding Reserves	200	2,000	2,000	2,000	6,000
Reserves Requirement Reduction	8,412	14,070	13,250	11,770	47,502
Unallocated specific grant - Social care	-	-	-	-	-
Revenue - Other Items	19,742	21,030	21,540	21,540	83,852
Technical Provisions	8,130	10,960	9,100	9,770	37,960
Technical Adjustments	(11,100)	-	-	-	(11,100)
Funding Reserves	200	2,000	2,000	2,000	6,000
Reserves Requirement Reduction	8,412	14,070	13,250	11,770	47,502
Unallocated specific grant - Social care	-	-	-	-	-
Revenue - Other Items	19,742	21,030	21,540	21,540	83,852
Technical Provisions	8,130	10,960	9,100	9,770	37,960
Technical Adjustments	(11,100)	-	-	-	(11,100)
Funding Reserves	200	2,000	2,000	2,000	6,000
Reserves Requirement Reduction	8,412	14,070	13,250	11,770	47,502
Unallocated specific grant - Social care	-	-	-	-	-
Revenue - Other Items	19,742	21,030	21,540	21,540	83,852

### Modelling of Budget Gap 2017/18 to 2020/21



### Capital Expenditure & Capital Financing Requirement (CFR)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
Total capital expenditure	21.8	24.6	26.7	22.7	13.2
Capital Financing Requirement	11.8	11.9	16.8	20.4	16.8
CFR	20.5	23.8	28.1	24.7	24.1

### Affordability Indicators -

**Ratio of Financing Costs to Net Revenue Stream** - highlight the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

	2015/16	2016/17	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate	Estimate	Estimate
Ratio of Financing Costs to Net Revenue Stream	8.6	8.4	8.4	7.8	7.8
Incremental Impact of Capital Investment Decisions	-	1.80	1.18	2.78	3.43
Decrease in Band D Council Tax*	-	-	-	-	-

\* Assumed 4% cumulative increase in Council Tax although no decision has been taken to this effect.

## APPENDIX 9b - Projected Earmarked Reserves

Reserve	Estimated Balance at year end					
	Balance at 31-Mar-16	Balance at 31-Mar-17	Balance at 31-Mar-18	Balance at 31-Mar-19	Balance at 31-Mar-20	Balance at 31-Mar-21
	£'000	£'000	£'000	£'000	£'000	£'000
Council Fund:	(6,500)	(6,500)	(6,500)	(6,500)	(6,500)	(6,500)
Balances held by schools for future use	(5,881)	(4,280)	(4,280)	(4,280)	(4,280)	(4,280)
<b>Earmarked Reserves:</b>						
Music Service	(205)	(205)	(205)	(205)	(205)	(205)
Insurance Reserve	(1,925)	(1,925)	(1,925)	(1,925)	(1,925)	(1,925)
MMI Insurance Reserve	(352)	(352)	(352)	(352)	(352)	(352)
Legal Claims	(100)	(100)	(100)	(100)	(100)	(100)
Health & Safety	(16)	(16)	(16)	(16)	(16)	(16)
Council Tax Reduction	(500)	(500)	(500)	(500)	(500)	(500)
Education Achievement Service	(92)	(92)	(92)	(92)	(92)	(92)
Schools Redundancies	(453)	(782)	(782)	(782)	(782)	(782)
Friars Walk	(6,176)	(8,987)	(8,987)	(8,987)	(8,987)	(8,987)
Gem Services Reserves	(100)	-	-	-	-	-
<b>SUB TOTAL - RISK RESERVES</b>	<b>(9,919)</b>	<b>(12,959)</b>	<b>(12,959)</b>	<b>(12,959)</b>	<b>(12,959)</b>	<b>(12,959)</b>
Pay Reserve	(1,948)	(1,218)	(1,000)	(1,000)	(1,000)	(1,000)
Capital Expenditure	(7,084)	(6,084)	(6,084)	(6,084)	(6,084)	(6,084)
Invest to Save	(12,838)	(10,354)	(7,957)	(7,486)	(7,466)	(6,466)
Super Connected Cities	(749)	(624)	(546)	(422)	(298)	(174)
Landfill (Door Stepping Campaign)	(131)	(31)	-	-	-	-
Christmas Lights	(47)	(24)	-	-	-	-
Usable Capital Receipts	(8,059)	(3,826)	(3,826)	(3,826)	(3,826)	(3,826)
<b>SUB TOTAL - ENABLING RESERVES</b>	<b>(30,856)</b>	<b>(22,161)</b>	<b>(19,413)</b>	<b>(18,818)</b>	<b>(18,674)</b>	<b>(17,550)</b>
STEP School Computers	(638)	(195)	(150)	(100)	(50)	-
Municipal Elections	(120)	-	-	-	-	-
Local Development Plan	(528)	(597)	(635)	(597)	(496)	(323)
Glan Usk PFI	(971)	(971)	(971)	(971)	(971)	(971)
Southern Distributor Road PFI	(44,498)	(44,481)	(44,470)	(44,258)	(43,918)	(43,918)
<b>SUB TOTAL - SMOOTHING RESERVES</b>	<b>(46,756)</b>	<b>(46,244)</b>	<b>(46,226)</b>	<b>(45,926)</b>	<b>(45,435)</b>	<b>(45,212)</b>
Works of art	(21)	(21)	(21)	(21)	(21)	(21)
School Works	(272)	(292)	(142)	0	0	0
Theatre & Arts Centre	(233)	(233)	(233)	(233)	(233)	(233)
Cymorth Income	(38)	-	-	-	-	-
Pupil Referral Unit	(60)	(60)	-	-	-	-
Gypsy and Traveller Site	(7)	(7)	-	-	-	-
Homelessness Prevention	(38)	(38)	-	-	-	-
Environmental Health - Improve Air Quality	(50)	-	-	-	-	-
Refurbishment of a Children / Older People Homes	(115)	-	-	-	-	-

ECDL Training Package - <b>Change to Apprenticeship Scheme</b>	(80)	(41)	-	-	-	-
City Deal Reserve - Rename - <b>City Economic Development</b>	(195)	(131)	(81)	(36)	-	-
NEW - Welsh Language Standards	(240)	(240)	-	-	-	-
NEW - YS Dilapidation Costs Information Shop	(51)	(51)	-	-	-	-
NEW - IPU Repairs & Maintenance	-	(70)	-	-	-	-
NEW - European funding	-	(75)	-	-	-	-
NEW - Additional funding for schools	-	(1,100)	-	-	-	-
<b>SUB TOTAL - OTHER RESERVES</b>	<b>(1,400)</b>	<b>(2,359)</b>	<b>(477)</b>	<b>(290)</b>	<b>(254)</b>	<b>(254)</b>
		-				
<b>RESERVES TOTAL</b>	<b>(101,311)</b>	<b>(94,502)</b>	<b>(89,854)</b>	<b>(88,772)</b>	<b>(88,101)</b>	<b>(86,754)</b>

## **APPENDIX 9c – RESERVES POLICY**

### **Newport City Council**

#### **Reserves Policy**

##### **1.0 Introduction**

- 1.1 This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council, the purposes for which they will be maintained and used in addition to their reporting requirements.
- 1.2 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 requires authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.3 There are also a range of safeguards in place that help prevent local authorities over committing themselves financially. These include:
  - The balanced budget requirement;
  - The statutory duty of the Head of Finance (S151 Officer) to report on the robustness of estimates and adequacy of reserves when the authority is considering its budget requirement (Section 25 of the Local Government Act 2003);
  - The legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the Head of Finance has responsibility for the administration of those affairs as set out in Section 151 of the Local Government Act 1972;
  - The requirements of the Prudential Code and the Treasury Management in Public Services Code of Practice.
- 1.4 The above requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the Head of Finance to report to all the authority's councillors if there is, or is likely to be, unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have resources to meet its expenditure in a particular financial year.
- 1.5 This policy is based on a requirement that all reserves are corporate in nature and that individual departmental reserves are only to be permitted, if agreed by Cabinet, after taking the advice of the S151 Officer.

##### **2.0 Definitions**

- 2.1 Reserves are sums of money held by the Council to meet future expenditure (whilst managing risk) and should be held for a specific purpose.

### 3.0 Types of Reserve

3.1 As an integral part of the annual budget setting process, the Cabinet (via the Head of Finance) considers the establishment and maintenance of reserves. These will be held for three main purposes:

- A **working balance** to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A **contingency** to cushion the impact of unexpected events or emergencies;
- A means of building up funds - **earmarked reserves**, to meet known or predicted requirements. The authority categorises earmarked reserves into three categories: risk, enabling or smoothing to reflect the general purpose of each reserve. A detailed analysis of the authority's reserves can be found in Appendix i.

The following table identifies the high level categories of earmarked reserves held by the Council:

Category of Earmarked Reserve	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations	Where expenditure is planned in future years, it is prudent to set aside resources in advance, e.g. Local Development Plan, Glan Usk Private Finance Initiative (PFI).
Risk reserve e.g. Insurance reserves	Reserve held to cover financial impact of potential risks that would impact on the revenue budget in the year they materialise.  An example is the Self-insurance is a mechanism used by most local authorities. In the absence of any statutory basis sums held to meet potential and contingent liabilities are reported as earmarked reserves where these liabilities do not meet the definition of a provision under the requirements of the Code's adoption of IAS 37 Provisions, Contingent Assets and Liabilities.
Reserves of trading and business units	Surpluses arising from in-house trading may be retained to cover potential losses or re-organisation costs in future years, or to finance capital expenditure, e.g. Gwent Music service.

Reserves retained for service departmental use	Internal protocols permit year end underspending at departmental level to be carried forward, where appropriate e.g. homelessness prevention.
Reserves for unspent revenue grants	Where revenue grants have no conditions or where the conditions are met and expenditure has yet to take place, surplus funds can be held in earmarked reserves for future use.
Schools balances	These are unspent balances of budgets delegated to individual schools.

3.2 Paragraph 3.1 above articulates the categories of ‘useable reserves’ held by the Council, i.e. those reserves that are ‘cash-backed’. On the technical accounting side, the Council also holds ‘unusable reserves’. These reserves are not cash backed and arise out of the interaction of legislation and proper accounting process, either to:

- a) Store revaluation gains (e.g. on property revaluations); or
- b) As adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements (e.g. pension reserve).

The remainder of this policy will focus on the Council's useable, and therefore, cash-backed reserves.

#### 4.0 General Fund Reserves

4.1 In assessing the appropriate level of reserves the Council will ensure that the general reserves are not only adequate but also necessary and will be appropriate for the risk (both internal and external) to which it is exposed.

4.2 The risks faced by a local authority will, in many cases, be due to the specific local context and will need to be kept under review. In assessing its financial risk the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on the factors that should be considered:

- Budget assumption for inflation and interest rates;
- Estimates of the level and timing of capital receipts;
- The treatment of demand led pressures;
- The authorities track record in budget and financial management;
- Treatment of planned efficiencies/savings;
- The financial risk inherent in any significant new funding partnerships, major outsourcing and capital developments;
- The likely level of Government support to deal with major unforeseen events;



- The adequacy of the authority's insurance arrangements;
  - The authority's virement and end of year procedures in relation to budget under and over spends;
  - The general financial climate and future funding assumptions.
- 4.3 The risk assessment to be carried out will be based on the guidance provided by CIPFA above and any further issues which the Head of Finance feels are relevant. This will be reviewed annually.
- 4.4 The appropriate level of General Fund Reserves will be determined annually as part of the budget setting process and medium term financial strategy plus at other periodic intervals in-year and will be subject to approval by the Cabinet and full Council.
- 4.5 The Head of Finance, within the Councils Medium Term Financial Plan and financial strategy will set out the level of planned reserve balances, including financial arrangements for any replenishing of reserves. It will also confirm acceptable thresholds above and below the balance where appropriate / relevant. If the balance falls outside of these thresholds a plan will be agreed by Cabinet to restore balances to the appropriate level.

## **5.0 Earmarked and Specific Reserves**

- 5.1 These are required for specific purposes and are a means of building up funds to meet known or predicted liabilities. By nature these reserve balances do not have minimum and maximum thresholds. Creation of such reserves must be approved by the Head of Finance.
- 5.2 Balances should be reasonable for the purpose held and must be used for the item for which they have been set aside. If circumstances arise to which the reserve is no longer required for its original purpose they will transfer to other earmarked reserves or the General Fund reserve, as agreed and approved by Cabinet.
- 5.3 The authority follows best practice in that for each earmarked reserve, a clear protocol exists setting out:
- The reason for/ purpose of the reserve;
  - How and when the reserve can be used;
  - Procedures for the reserves management and control; and
  - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

### **5.4 Setting up of reserves**

- 5.4.1 Where officers would like to request potential transfers to/ from existing earmarked reserves or the creation of a new reserve, discussions are to be had with the Assistant Head of Finance (AHoF) and the service area Senior Finance Business Partner (SFBP) to determine whether the assumption needs to be included within the in-year financial monitoring forecasts. Any decisions on whether these

requests are authorised or not will, in the majority of cases, be made at year end when the overall Council position is known and must be approved by Cabinet.

5.4.2 Reserve request forms will be circulated as part of the year end closing process.

## **5.5 Use of reserves**

5.5.1 Should there be an unplanned need to utilise general reserves there must be a clear plan setting out the intended route to replenish the reserves to its minimum balance recommended. This must clearly state how the shortfall will be met and by when.

5.5.2 Where there is a planned use of reserves a reserve request form must be submitted to the Head of Finance to be considered at year end as set out in 5.4 above.

## **6.0 Ring-fenced Reserves**

### **6.1 Schools Reserves**

6.1.1 Schools are able to carry forward surplus and deficit balances from one year to the next and utilise these balances for managing changes in pupil numbers and funding, or the funding of projects and future liabilities. The balances are held by individual schools and are not for general Council use. Guidance on the level of balances held is documented within section D of Newport City Council Scheme for the Financing of Schools.

## **7.0 The Reporting Framework**

7.1 The balances and movement of all reserves is required to be reported within the authorities Annual Statement of Accounts.

7.2 The balance held and projected movement of useable reserves will be reported monthly/ quarterly as part of the budget monitoring report to the Senior Leadership Team (SLT)/ Cabinet. This includes the level of reserves held against each category of reserve.

7.3 The S151 Officer has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

7.4 The level and utilisation of reserves will be determined formally by the Cabinet, informed by the advice and judgement of the S151 Officer. To enable the Cabinet to reach its decision, the S151 Officer should report the factors that influenced his or her judgement, and ensure that the advice given is recorded formally. Where this advice is not accepted this should be reported formally in the minutes of the Cabinet meeting.

## 7.5

- The budget report to the Cabinet should include a statement showing the estimated opening general reserve fund balance for the year ahead, the addition to/ withdrawal from balances, and the estimated end of year balance. Reference should be made as to the extent to which such reserves are to be used to finance recurring expenditure;
- This should be accompanied by a statement from the S151 Officer on the adequacy of the general reserves and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy;
- A statement reporting on the annual review of earmarked reserves (including schools' reserves) should also be made at the same time to the Council. The review itself should be undertaken as part of the budget preparation process. The statement should list the various earmarked reserves, the purposes for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/ withdrawals and the estimated closing balances.

## Appendix i – Analysis of Reserves

Reserve	Purpose/ Rationale for Reserve
Council Fund	General Reserve
Schools Reserve	Balances held by schools for their future use
<b>Earmarked Reserves:</b>	
<b>Risk Reserves:</b>	
Music Service	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 cost's for re-organisation are incurred.
Insurance Reserve	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	To assist in future funding requirements of MMI in line with the agreed 'Scheme of Arrangement'.
Legal Claims	Risk of future legal claims in relation to a range of charges such as Social Services, complaints and non-compliance etc.
Health & Safety	Responding to inspections and reports from Health & Safety Executive.
Council Tax Reduction	Council responsible for cost overruns on council tax benefits, which is demand led. Reserve covers specific budget risk on this area and established when grant funding transferred into Revenue Settlement Grant (RSG).
Education Achievement Service	Reserve held against Newport's 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.
Friars Walk	Established to assist with potential future funding/risks in relation to the Friars Walk Scheme.

GEM Services Reserves	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.
<b>Enabling Reserves:</b>	
Schools Redundancies	Reserve has been created from contributions from Schools to cater for redundancy costs that arise through schools that 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.
Pay Reserve	Total Reward team costs, outstanding equal pay claimants, hardship payments.
Capital Expenditure	To fund capital investment.
Invest to Save	To enable funding of specific change/efficiency projects which achieve savings to the revenue budget.
Super Connected Cities	Funding for Community Safety Network over a seven year period including project costs.
Landfill (Door Stepping Campaign)	Recycling initiative (door knocking campaign) to increase recycling targets.
Christmas Lights	Recover costs associated with Christmas lights until alternative funding sources are found.
Usable Capital Receipts	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.
<b>Smoothing Reserves:</b>	
STEP School Computers	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	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	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	Established to smooth out funding differences that have arisen from funding available and payments to the contractor - reserve will balance over life of project
Southern Distributor Road PFI	Established to smooth out funding differences that have arisen from funding available and payments to the contractor - reserve will balance over life of project
<b>Other Reserves:</b>	
Works of art	To fund purchases for the collections.
School Works	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	Council agreed reserve as condition of Art's Council funding of the Riverfront Theatre.
Cymorth Income	To fund the provision of Domestic Abuse Services.
Pupil Referral Unit	Specific reserve for development of Pupil Referral Unit (PRU) over and above refurbishment of new premises.
Gypsy and Traveller Site	To carry out preparation, design, and consultancy activities with the development of the Gypsy and Traveller site identified in the Local Development Plan (LDP).
Homelessness Prevention	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	To undertake highways work in a specific area to improve air quality and reduce noise pollution.
Refurbishment of a Children / Older People Homes	There is a need to refurbish residential homes on a regular basis to attract Service Users and more importantly, to ensure they meet inspection criteria.
ECDL Training Package - Change to Apprenticeship Scheme	Reserve established from 2014/15 underspending. To fund ECDL and online IT training packages.
City Deal Reserve - Rename - City Economic Development	To fund initial contribution to the City Deal project.
Welsh Language Standards	To fund expenditure in relation to implementation of Welsh language standards.
Youth Service - Dilapidation Costs Information Shop	To fund costs associated with bringing the property back in repair at the end of a lease.

## APPENDIX 9d - SUMMARY OF INVEST TO SAVE SPEND AND FORECAST

<b><u>Invest To Save - Summary Forecast</u></b>	
	<b>£'000</b>
Balance B/F 31.03.2016	(12,838)
Total Forecast Spend 2016/17	2,484
Invest to Save Forecast balance 31.03.2017	<b>(10,354)</b>
Further Funding Required:-	
Bids & Change/Efficiency proposals	
2017/18	2,397
2018/19	471
2019/20	20
Remaining Invest to Save reserve available for future Change/Efficiency Programme	<b>(7,466)</b>