Herefordshire Council

Medium Term Financial Strategy 2017/18 – 2019/20

Introduction to Herefordshire's Medium Term Financial Strategy

Herefordshire is a rural county with an older demographic, facing an increasing demand for services which makes savings difficult. Despite this the council has set a medium term financial strategy which demonstrates how savings will be achieved by increasing efficiencies from changing the way services are delivered.

2016/17 saw further significant budget reductions and the requirement for £10m savings in addition to those achieved in previous years but the council is on target to deliver these savings and balance its budget in the current financial year. Further savings will be required in the coming years, £17.5m between now and 2019/20 to offset the impact of reducing central government contributions to council funding.

The MTFS demonstrates the robust financial planning that Herefordshire has and assurance in its ability to deliver the medium term financial strategy; to be approved by Council in February 2017.

The MTFS summarises the financial positon of the council and includes the expected impact on revenue spending, capital investment, borrowings and reserves in the coming years. The management of our financial resources is necessary to ensure the council is able to continue to deliver services to our residents today and also to deliver benefits across the region in future years.

As funding from central government has reduced, the council has become almost totally reliant on council tax and business rates to fund its services. That is why the cabinet is recommending an increase of almost 4% in the rate of council tax for 2017/18.

The opportunity to ask the residents of Herefordshire to contribute above the level set by government has been given serious consideration, however, it is clear that households have many other pressures on their budgets. The proposed increase of 3.9% is the minimum that it is prudent to set in order that the council can continue to deliver the quality and range of services to the most disadvantaged in the county.

The MTFS contains a great deal of information which will allow you to:

- Understand the overarching financial position of the council in the coming years;
- Have confidence that the public money with which the council has been entrusted will be used to support the needs of all our residents;
- Be assured that the financial position of the council is sound and secure.

The council has an excellent track record in delivering its plans and the report sets out some of the many achievements of the last few years including the following:

- 368 miles of road resurfaced in the last 3 years and over 200,000 pot-holes
- rollout of "Fastershire" broadband to over 80% of residents and businesses
- Enterprise zone established and developed
- Key Stage 5 results 6% above national average in our schools
- Re-establishing the council as a commissioner of adult social care from NHS

This MTFS underlines the council's aspiration to support its new Economic Vision, to develop further the business rates income and job opportunities which will ensure that this council can fund its statutory duties in the years to come. The cabinet is confident that the plans it is asking Council to approve in February will ensure Herefordshire continues to be great place to live and work.

Councillor Tony Johnson

Leader of the Council

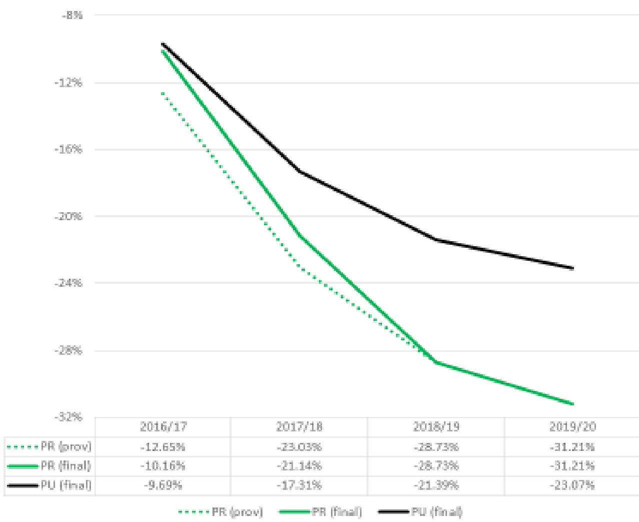
1. Background to the Medium Term Financial Strategy

1.1. Herefordshire is the most sparsely populated county in England, with residents dispersed across its 842 square miles. Areas of poverty and deprivation exist in Herefordshire and there are crucial economic, geographic and demographic factors, relating to distance, population sparsity, ageing, social inclusion and market structure. However, as a rural area, it receives on average, 50% less central government assistance than an urban rural area placing Herefordshire at a disadvantage compared to our urban counterparts.

1.2. In addition, social isolation is a growing concern, not least because of the disproportionately increasing number of older people living in Herefordshire, but also due to poverty and deprivation. The cost of living in rural areas, for example transport and domestic fuel costs, can be higher than in urban areas. There is also recognition that it is often the most vulnerable members of the community, such as frail elderly people and deprived families who suffer most from the loss of local services and the high cost of living.

1.3. 54% of Herefordshire's population live in rural areas of which 42% in the most rural locations. Providing services to a dispersed population across a large geographic area is a challenge and additional resources are required to ensure council services are maintained for all residents in the county

1.4. The four year funding settlement has partially recognised these additional pressures by increasing support for the most sparsely populated rural areas by increasing the rural services delivery grant (RSDG), £4.1m in 2017/18 for Herefordshire. Despite this rural councils are worse off than urban ones. (Green (bottom) line rural councils/ Black (top) line urban councils)



	2016/17	2017/18	2018/19	2019/20
PR (prov)	-12.65%	-23.03%	-28.73%	-31.21%
PR (final)	-10.16%	-21.14%	-28.73%	-31.21%
PU (final)	-9.69%	-17.31%	-21.39%	-23.07%

Reduction in Government Funded Spending Power 2015/16 to 2019/20

1.5. Herefordshire's economic base is focused on agriculture and as such its business rates base is low compared to other areas. As such a 1% growth in the business base generates an extra £63.50 per person in Westminster but just £2.20 for Herefordshire. While Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in sparsely populated areas it is not enough for councils like Herefordshire where its sparse population is more evenly distributed throughout the county. To redress this imbalance, the council works with the Rural Services Network (known as SPARSE) and its MP's to improve this position.

1.6. Despite these constraints the council has made necessary, difficult decisions to enable it to continue to deliver important services to our residents whilst assessing the challenge of delivering savings of £87m between 2010 and 2020.

1.7. Without delivering the challenging changes required, Herefordshire Council would have been unable to meet its financial obligations. The council is committed to work within budget and 2016/17 is expected be the 4th successive year that we have done so.

1.8. Whilst ensuring that the overall budget is balanced, the council has been carefully building reserves to a prudent level to manage financial risk and to support future needs. Over the past three years the council has delivered improvement, achievement, positive change and outcomes along the way to deliver our key priorities, including:

Supporting the growth of our economy

- Delivered major public realm improvements to Hereford's centre.
- Opening of the Hereford Greenway and new cycle bridge over the River Wye completing another key link in the city cycle network.
- 368 miles of road resurfaced in the last 3 years - 19% of the entire highway network.
- Filled over 200,000 pot-holes.
- Continued rolled out of "Fastershire" broadband to over 80% of residents and businesses in the county.
- Enterprise zone established and developed.

Keeping children and young people safe and giving them a great start in life

- Developed New Horizons to enable young adults with learning disabilities to stay in build their independence in Herefordshire rather than out of county.
- Increased the number of local foster carers by 9%, against a national backdrop of reducing numbers.
- Introduction of first Multi Agency Safeguarding Hub in West Mercia.
- Development of new approach to provide housing for vulnerable young adults.
- Development of family based short breaks for children with a disability to give parents more choice.

Enabling residents to live safe, healthy and independent lives

- Restructuring social work teams to provide a clearer service pathway, ensuring rapid assessment for routine cases, along with expert capacity for complex cases, dramatically increasing the proportion of clients reviewed each year,
- Reviewing all contracts and securing cost reductions of 30%-50%, while still maintaining quality and impact in key areas,
- Securing approval of a new housing strategy and housing allocations policy, in a context of major national system change

All of which have contributed to our objective to secure better service, quality of life and value for money.

1.9. The next three years are expected to be equally challenging but the MTFS is designed to provide a robust financial framework through which even more can be delivered to the residents of Herefordshire.

2. Medium Term Financial Strategy

2.1. This Medium Term Financial Strategy (**MTFS**) covers the financial years 2017/18 to 2019/20 and demonstrates how the council will maintain financial stability, deliver efficiencies and support investment in priority services, whilst demonstrating value for money and maintaining service quality.

2.2. The MTFS is a key part of the council's integrated corporate, service and financial planning cycle. This process is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with the corporate priorities set out in the Corporate Plan. Herefordshire's key priority areas are:

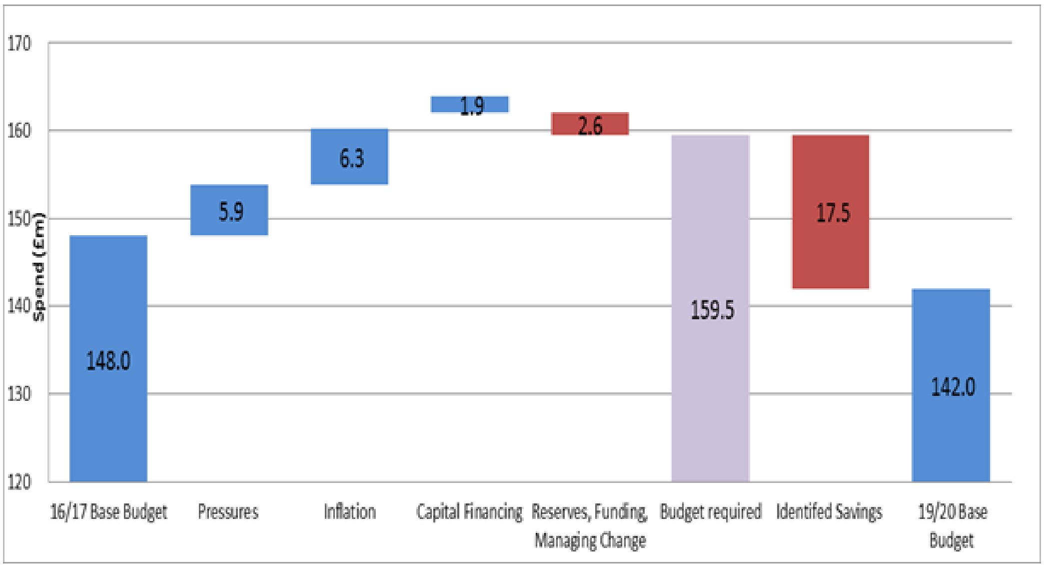
- **enable residents to live safe, healthy and independent lives**
- **keep children and young people safe and give them a great start in life**
- **support the growth of our economy**
- **secure better service, quality of life and value for money.**

2.3. All local authorities are reducing services as the government continues to significantly reduce the funding it provides to local government across England. We are seeing a significant change in the way councils are funded, back in 2010 80% of council spend was funded by grant but by 2020 almost all council expenditure will be funded locally through council tax and business rates. We remain in an austerity period in which the council has identified savings totaling £87m between 2010 and 2020. The council is on schedule to meet this challenge, delivering £69.5m of these savings by the end of 2016/17.

2.4. The demand for services continues to grow with the council providing care for more people, particularly in essential areas such as children's safeguarding and adult social care. Cost pressures have been reflected in this MTFS and residual risks will be constantly monitored. Demand management will be key to ensure future financial resilience alongside increased integrated working with the health sector.

2.5. Balancing the MTFS

2.5.1. The MTFS has been set with regard to known funding reductions, additional cost pressures and identified savings of £17.5m for the period 2017/18 to 2019/20. The following graph demonstrates how the council's budget base is expected to move over the period of the MTFS. It starts with the current budget, reflects the specific spending pressures to show what the budget might be and then the savings required to ensure our expenditure matches our income.



2.6. Value for money

2.6.1. In managing the financial pressures, the council's strategic and corporate plans set out its vision for the county to support a strong, diverse and enterprising business base, operating in an exceptional and connected environment where the transfer of technology and skills foster innovation, investment and economic growth.

2.6.2. These ambitious plans will accelerate growth and provide opportunities for all who live and work in Herefordshire through strong stewardship and strong partnerships with the private sector. Over the last five years the council's performance has improved across a wide range of services building the foundations for a successful economy and this remains a key priority.

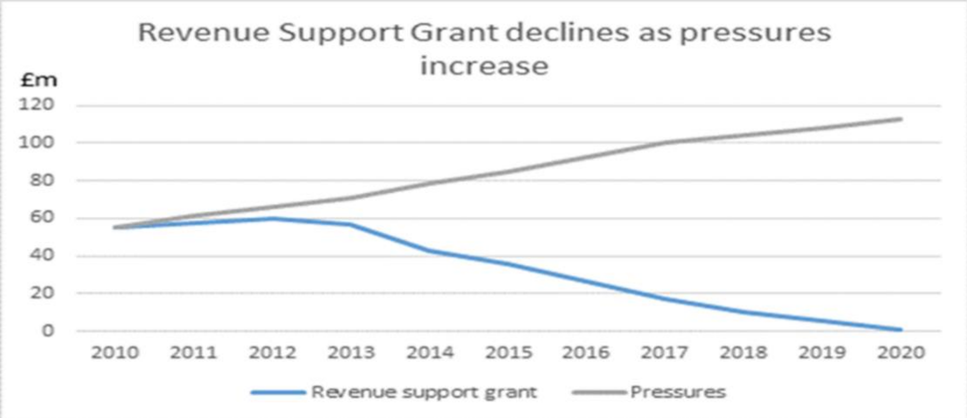
2.6.3. The council has enabled major improvements including the delivery of flood relief schemes, a new livestock market, a privately funded retail and leisure development on the site of the old livestock market, access to superfast broadband, an Enterprise Zone in Rotherwas, improved leisure facilities across the county and improvements to the highway network. A core strategy has been adopted that will provide a blueprint for developing the county over the period to 2031, including the delivery of the Hereford by-pass.

2.6.4. Using cost benchmarking data, the council is able to focus on areas where spend varies from other authorities with similar characteristics and challenges, such as providing adult social care services to a sparsely dispersed aging population. National benchmarking data is currently available to 2015/16 and showed that overall Herefordshire Council is ranked second against its thirteen statistical comparator neighbours on the basis of their cost of service (per revenue outturn).

2.6.5. These improvements have been recognized by our external auditors, Grant Thornton who annually review the value for money and statement of accounts of the council. They do this by looking at key indicators of financial performance, its approach to strategic financial planning, its approach to financial governance and its approach to financial control. In respect of the last financial year (2015/16) they were satisfied that, in all significant respects, the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

2.7. National context

2.7.1. The local government finance system has undergone a significant change from a highly-centralised system of funding, with central government grants allocated on the basis of councils' relative spending need, to a system where councils as a group are self-funding and individual councils bear far more spending and revenue risk.



2.7.2. The impact of these changes has meant that Councils are less reliant on central government grant and more responsible for their financial management, resulting in an increasing funding gap to be met by savings.

2.7.3. Pressures on social care costs have been recognised through the introduction of an additional 2% levy on council tax referendum thresholds to be used entirely for adult social care; this will generate £1.8m each year for Herefordshire. The Autumn Statement provided some additional flexibility to the timing and size of this precept, provided that it does not exceed 6% over the three year period. Consideration will be given to this option in future years.

2.7.4. The Autumn Statement reduced the level of New Homes Bonus, with a 0.4% threshold and introduced a specific, one year, Adult Social Care Grant. The net impact of this was a £0.2m reduction which in 2017/18 has been mitigated by a higher tax base.

2.7.5. The government will introduce the first ever national funding formula for schools, high needs and early years, a detailed consultation was launched in 2016 and the new formulae will be implemented from April 2018.

2.7.6. In addition, discussions continue on the national system of business rates with the proposal for councils to retain 100% of business rates (rather than

50% at present) but potentially without the protections for councils with lower numbers of businesses. This additional funding is likely be accompanied with additional responsibilities, and therefore may require additional savings with an expectation for “national fiscal neutrality”. The council is continuing with its current, sound practices to manage these pressures.

2.7.7. The 2016 Autumn Statement reflected the latest forecasts from the Office of Budget Responsibility which indicated increasing inflationary pressures and falling government revenues well into 2020 and beyond. This is likely to result in increasing the government’s borrowing requirement and introducing greater uncertainty in the growth and resilience of the UK economy.

2.7.8. These national factors create further risk to the council’s core income streams and the increased need to hold reserves at a level sufficient to protect the council from unplanned events.

2.7.9. This MTFS period will be extremely challenging for councils and many face difficult decisions about which services are scaled back or stopped altogether. It is against this background that Herefordshire council’s MTFS has been prepared.

3. The Revenue Budget

3.1. The MTFS summarises the council’s financial plans for the next three years, is updated annually, and reflects the current year’s performance and the next year’s budget; it covers the period from 2017/18 to 2019/20,

3.2. It is prepared using the Financial Resource Model (**FRM**) which takes into account the corporate financial objectives and plans. The FRM provides an assessment of the overall resource available over the medium term linking the revenue account with the capital investment plan, treasury management strategy and reserves policy to provide a complete overview of the council’s financial positon over time. It sets the financial context for corporate and service planning so that the two planning processes are fully integrated.

3.3. Funding Assumptions

3.3.1. The FRM includes a number of key assumptions in respect of funding on which the financial strategy is based. The council’s revenue funding assumes:

- Council Tax - a 1.9% increase for 2017/18 and in future years in council tax plus a further 2% in respect of the Adult Social Care precept, making an overall increase of 3.9% per annum;
- Revenue Support Grant is expected to fall in line with the four year settlement agreed between the government and council;
- Increases in business rate reliefs as set in the Autumn Statement.

3.3.2. These will be reviewed each year against further changes in government funding as part of the annual budget process to ensure all relevant and up to date information is reflected in the budget process. Increasingly the council is becoming more dependent on income from Council Tax and Business

Rates than funding from central government and this will continue throughout the years covered by the MTFS. It is worth noting the system of business rates is likely to change in 2020/21 and may reduce the level of business rates retained by the council for future years.

Funding Assumptions	2017/18	2018/19	2019/20
	£000's	£000's	£000's
Council Tax (assuming 3.9% increase p.a.)	93,049	97,466	101,894
Locally retained business rates *	32,612	33,116	33,654
Revenue Support Grant (RSG)	10,090	5,370	620
New Homes Bonus (NHB)	3,585	2,540	1,760
Rural Services Delivery Grant (including transitional grant) RSDG	4,669	3,149	4,093
ASC Support Grant	885	-	-
Reserves - one offs	135	-	-
Base Budget	**145,025**	**141,641**	**142,021**

*Business rates includes top up and Section 31 grants

3.4. Budget Pressure Assumptions

3.4.1. Current planning assumptions include the following:

- inflation - 2%- 2.4% uplift per annum on income and costs, contract inflation indices on non-pay expenditure;
- pay – increased at 1% per annum;
- introduction of the apprenticeship levy in 2017/18 and Living Wage impact;
- interest rates – investment income and borrowing costs in line with the Treasury Management Strategy.

3.4.2. The total of directorate pressures included in the FRM are set out in the following table and also reflect the service demand pressures identified within each directorate. These do not reflect the potential inflationary increases indicated in the Office of Budget Responsibility's report published on 23 November 2106 but are reviewed annually as part of the budget process.

3.4.3. The potential impact arising from the decision of the UK to leave the European Union is likely to influence future government financing and some indications of this have been provided. These changes will be reflected in future planning as they become clearer.

Budget Pressures	2017/18	2018/19	2019/20	Total
	£000's	£000's	£000's	£000's
Legislative changes (living wage)	618	492	540	**1,650**
Adult's demographic pressures	850	926	945	**2,721**
Adults preventative measures	(600)	-	-	**(600)**
Contract and pay inflation and other pressures	1,891	2,154	2,277	**6,322**
Apprenticeship levy	200	-	-	**200**
Unaccompanied asylum seeking children	100	-	-	**100**
Children's services pressures	425	-	-	**425**
Adults contractual inflation	356	508	529	**1,393**
Base Budget	**3,840**	**4,080**	**4,291**	**12,211**

3.4.4. Following the approval of the budget, directorates will be expected to manage any new or additional budget pressures within their own net spending limits.

3.5. Savings Assumptions

3.5.1. The council delivered almost £70m of savings in the financial years 2010/11 to 2016/17 and will be required to generate an additional £17.5m of savings in the financial period 2017/18 to 2019/20 in order to balance its planned expenditure against its income.

3.5.2. Directorate savings have been identified, or revised, as part of the budget process and these are summarised in the table below:

Directorate Savings	2017/18	2018/19	2019/20	Total
	£000's	£000's	£000's	£000's
Adults and Wellbeing	2,400	1,950	1,500	5,850
Children's Wellbeing	1,159	1,572	1,050	3,781
Economy, Communities and Corporate	2,800	1,800	1,060	5,660
Corporate Savings	491	500	1200	2,191
Total Savings	**6,850**	**5,822**	**4,810**	**17,482**

3.5.3. Adults and Wellbeing:

Key savings targets are directed toward the following areas to improve service delivery and reduce costs while protecting the most vulnerable members of the community.

Adults and Wellbeing Savings Proposals	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Decommissioning block contracts/re-design	550	400	-	950
Reducing package costs and diverting demand	350	350	300	1,000
Price banding in 3yr settlement	200	200	200	600
Reducing costs of high cost packages in LD	700	700	300	1,700
Workforce re-design	200	200	600	1000
Early delivery of Public health savings	200	-	-	200
Income Generation Proposals				
Sale of beds to self-funders	50	-	-	50
Income generation- zero cost of telecare	150	100	100	350
Total Savings	**2,400**	**1,950**	**1,500**	**5,850**

3.5.4. Children's Wellbeing

Savings proposals have been directed to the following areas to minimize the impact on service delivery

Children's Wellbeing Savings Proposals	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Manage contract inflation and secure contract efficiencies.	250	250	250	750
Reduction in the number of looked after children	566	822	450	1,838
Organisational structure to reflect the service requirements	243	350	200	793
Income Generation Proposals				
Accessing government grant to focus early help offer on the most vulnerable families, to reduce the need for higher cost services.	100	150	150	400
Total Savings	**1,159**	**1,572**	**1,050**	**3,781**

3.5.5. Economy, Community and Corporate Savings Proposal

Directorate savings plans are focused on improving the efficient operation of core services through service re-design, operational efficiency and increased parking income:

Economy, Community and Corporate Savings Proposal	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Restructure/Organisational re-design to generate staff savings	363	100	180	**643**
Reduced costs of ICT and accommodation costs through building rationalisation	530	450	250	**1230**
Restructure service delivery in Libraries, Customer Service centres, Museums and Archives	480	470		**950**
Removal of subsidies to Parish councils	100	100	100	**300**
Reductions in public and community Transport	275	240	225	**740**
Public realm and energy savings	525	25	25	**575**
Museums and Heritage savings	100	150	250	**500**
Income Generation Proposals				
Increased income form commercial waste	30	30	30	**90**
Increased car parking income	397	235		**632**
Total Savings	**2,800**	**1,800**	**1,060**	**5,660**

3.5.6. Corporate Savings Proposals

In addition to directorate savings, this MTFS targets savings related to corporately controlled assets and income to generate the following savings:

Corporate Savings Proposal	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Savings arising from asset disposals and changes to Council Tax Reductions Scheme (CTRS) (agreed in 2016)	442	400	1,000	**1,842**
Organisational re-design to generate staff savings	49	100	200	**349**
Total Savings	**491**	**500**	**1,200**	**2,191**

3.6. Summary

The overall impact on the proposed revenue budget is shown below and demonstrates a balanced MTFS in each of the plan years in line with the governments four year funding settlement:

Revenue Budget	2017/18	2018/19	2019/20
	£000's	**£000's**	**£000's**
Base Budget	147,979	145,025	141,641
Pressures	3,840	4,080	4,291
Savings	(6,850)	(5,822)	(4,810)
	144,969	**143,283**	**141,122**
Corporate adjustments*	56	(1,642)	899
Revised Base Budget	**145,025**	**141,641**	**142,021**
Funding Available	**145,025**	**141,641**	**142,021**

*Corporate adjustments include agreed virements, capital costs, funding adjustments and reserves

3.7. Directorate Net Spending Limits

The proposed revenue budget will be allocated to directorates as set out below:

Directorate Budgets	Adults	Children	ECC	Corporate	Total
	£000's	£000's	£000's	£000's	£000's
2016/17 base budget	**51,243**	**20,875**	**46,540**	**29,321**	**147,979**
Pressures	2,171	384	1,174	111	3,840
Savings	(2,400)	(1,159)	(2,800)	(491)	(6,850)
Corporate adjustments*	144	1,053	(174)	(967)	56
2017/18 budget proposal	**51,158**	**21,153**	**44,740**	**27,974**	**145,025**
Pressures	2,383	511	1,083	103	4,080
Savings	(1,950)	(1,572)	(1,800)	(500)	(5,822)
Corporate adjustments				(1,642)	(1,642)
2018/19 draft budget	**51,591**	**20,092**	**44,023**	**25,935**	**141,641**
Pressures	2,539	533	1,111	108	4,291
Savings	(1,500)	(1,050)	(1,060)	(1,200)	(4,810)
Corporate adjustments				899	899
2019/20 draft budget	**52,630**	**19,575**	**44,074**	**25,742**	**142,021**

*Corporate adjustments include agreed virements, capital costs, funding adjustments and reserves

4. The Capital Budget

4.1. The capital investment set out in the capital programme will support the corporate plan priorities by:

- **Improving schools**
- **Enhancing infrastructure**
- **Housing delivery and**
- **Creating job opportunities**

4.2. The Capital Programme 2017/18 was approved by council on 16 December 2016 (commitments from previous years are shown in the appendix). The council's Capital Programme is funded by grants, borrowing and capital receipts. The revenue impact of funding schemes by borrowings are included in the budget in accordance with the Treasury Management Strategy and Prudential Borrowing Indicators. The following table summarises the fully funded capital investment programme and the detailed investment plan is set out in appendix 2.

4.3.

Capital Investment Programme and Financing	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Total Expenditure	**73,272**	**65,938**	**36,911**	**176,121**
Prudential Borrowing	24,456	22,731	14,547	**61,734**
Grants and contributions	39,071	41,082	22,214	**102,367**
Capital Receipts	9,745	2,125	150	**12,020**
Total Funding	**73,272**	**65,938**	**36,911**	**176,121**

4.4. As the table demonstrates, capital expenditure can be funded from capital receipts, borrowing, grants and revenue contributions. The council has a policy that ensures capital cash resources are used effectively in support of corporate priorities. As a result, all capital receipts are a corporate resource and not 'owned' or earmarked for directorates unless allocated for a specific purpose. The capital receipts reserve is available to support spending on the creation or enhancement of assets.

4.5. Government support for capital investment is through the allocation of grants, known grant funding allocations for 2017/18 are listed in the appendix but a number, including disabled facilities grant and schools maintenance, are yet to be announced.

4.6. The challenges given to retaining assets will be based on value for money, the delivery of strategic priorities and key service delivery. Surplus properties will either be recycled or disposed of and proceeds will be reinvested. The disposal of land will be allowed after the consideration of sacrificing a capital receipt for transfer of the land for use as social housing, or as a community asset transfer.

5. Treasury Management Strategy

5.1. The council is required to adopt an annual Treasury Management Strategy Statement (**TMSS**) each year as part of the budget setting process in order to fully recognise the financial implications arising from its revenue and capital budgets through the capital financing requirement to ensure the impact of capital investment is fully reflected in the revenue budget; this is provided through the minimum revenue provision (**MRP**).

5.2. The TMSS is a summary of the Treasury Management Strategy (**TMS**) which provides a more detailed analysis of the council's loans and investments and the future outlook for interest rates and financing, supported by the council's external treasury management advisors.

5.3. The TMS for 2017/18 sets out the council's strategy for making borrowing and investment decisions during the year to meet the capital and revenue spending plans approved by council and considers the impact of future interest rate movements. The full TMS is set out in detail in Appendix 3 and is summarized below.

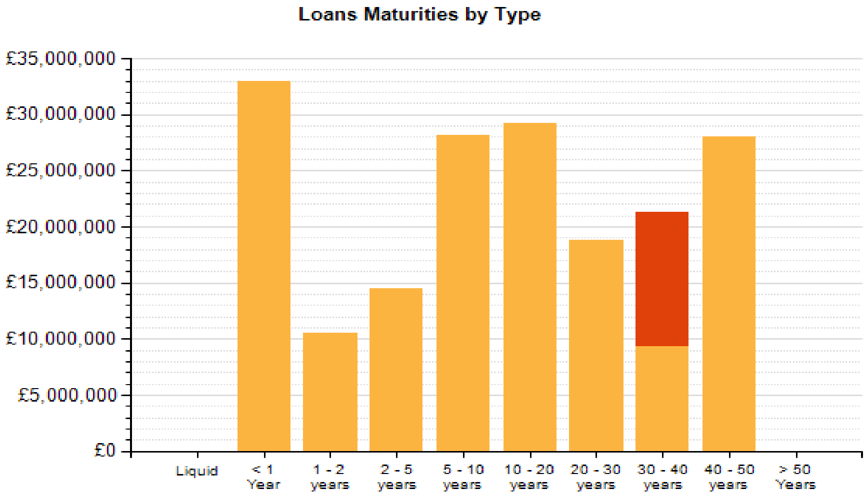
5.4. Borrowing

5.4.1. The estimated year end borrowing levels for the period of the MTFS are set out below:

Estimated Year End Borrowings	31.03.17 £000	31.03.18 £000	31.03.19 £000	31.03.20 £000
CFR excluding other long-term liabilities and MRP provision and grants	245,669	258,152	236,174	243,760
Less: Existing Profile of Longer Term Borrowing – PWLB and bank loans	(149,950)	(148,489)	(143,011)	(137,517)
Cumulative Maximum External Borrowing Requirement	95,719	109,663	93,162	106,243
Internal borrowing	(17,000)	(15,000)	(12,000)	(10,000)
Anticipated Capital receipts	0	(33,600)	0	0
Cumulative Net Borrowing Requirement	78,719	61,063	81,162	96,243
Total Council Borrowing	**228,669**	**209,552**	**224,174**	**233,760**

5.4.2. Total gross outstanding debt at 30 November 2016 was £183.6m of which £32.5m were short term loans and £151.1m fixed rate, long term loans, which are being repaid via the minimum revenue provision as explained above. Included in total borrowings is £23.4m which is supported by a long term, commercial loan arrangement with our Waste Disposal provider.

5.4.3. The council's debt is repayable over the following maturity profile and reflects the level of short term debt held by the council to ensure sufficient flexibility to meet the planned requirements of the investment programme and capital receipts. The portion of the graph in red relates to LOBO (lender option, borrower option) loan repayments.



5.4.4. The need for new borrowing is based on the Capital Programme, which indicates an additional borrowing requirement of £25.9m over the MTFS period. The report of the Office of Budget Responsibility issued on 23 November 2016 does indicate that interest rates may have to rise in response to inflationary pressures arising from falls in sterling. However the MTFS and budget for 2017/18 have been set on the assumption that interest rates will climb steadily. This position will be kept under review so that the council is able to respond quickly should interest rates begin to rise. This impact will apply equally to both investments and borrowings (Appendix 3 in TMS).

5.5. Investments

5.5.1. During 2016/17 interest rates have remained low and in the year to date, the average daily rate achieved on the council's investments has averaged at 0.3%. A further decrease in the bank base rate, reducing it from 0.5% to 0.25%, was introduced from August 2016 and is not expected to rise in the short term but will be closely monitored in 2017.

5.5.2. The council's primary objective in relation to the investment of public funds remains the security of capital and minimisation of risk, which leads to lower returns. The council's Treasury Advisors, Capita, provide regular market intelligence to support the protection of the investment portfolio and cash balances are minimised to reduce the need to borrow.

6. Reserves

6.1. The Council's useable reserves are split between General Reserves and Earmarked reserves and are held for certain purposes is described below:

6.2. General Reserve

6.2.1. Part of the council's General Reserve is held as a Strategic Reserve to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve is maintained at a minimum level of between 3% and 5% of the Council's net revenue budget.

6.2.2. The remainder of the Council's General Reserve is to support one-off and limited on-going revenue spending and, in line with the four year settlement, for smoothing the impact of the late delivery of savings plans.

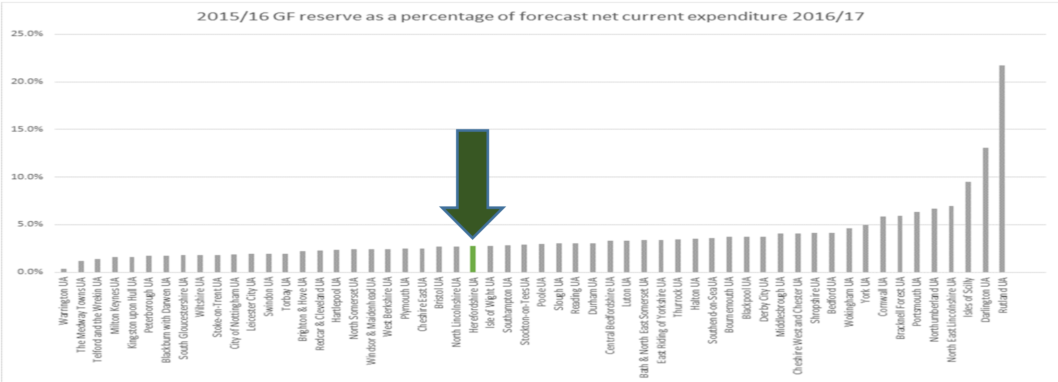
6.3. Earmarked Reserves

The council's earmarked reserves are held to meet identified spending commitments. These reserves will only be used for the purpose for which they were created and will be reviewed annually. If they are no longer required they will be transferred to the general reserve. The use of earmarked reserves requires the approval of the Chief Finance Officer.

Balance as at	Strategic Reserve	General Reserve	School Balances	Earmarked Reserves	Total Reserves
	£m	£m	£m	£m	£m
31 March 2016	7.2	0.1	9.4	19.1	35.8
31 March 2017	7.3	3.6	7.2	18.0	36.1
31 March 2018	7.1	4.0	7.2	16.0	34.3
31 March 2019	6.8	4.0	7.2	14.0	32.0
31 March 2020	6.8	4.0	7.2	14.0	32.0

Certain Earmarked reserves fall outside the control of the council, specifically School balances.

6.4. The level of reserves is reasonable when compared to other unitary councils and will be kept under review. (based on RO return data – not audited Financial Statements)



6.5. The Council's reserves policy is set out in Appendix 4 and reflects best practice in respect of the appropriate level of strategic reserves.

7. Budget Risks

7.1. The most substantial risks have been assessed in the budget process and, where possible, reasonable mitigation has been made. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process. The proposed budget includes contingency and reserves that, if required, can be used to manage risks.

7.2. Demand management in social care continues to be a key issue, against a backdrop of a demographic of older people that is rising faster than the national average, and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on demand management through disease prevention and behavioral change is critical for medium term change. In addition re-setting our relationship with communities, focusing services on areas of greatest professional need, will support the MTFS.

7.3. There are on-going risks in achieving reductions in children's safeguarding costs, Herefordshire is high spending compared to statistical neighbours and methods of reducing this cost are progressing however some delays have been experienced.

7.4. Key areas of focus include, sustaining the current focus on a new relationship with citizens and communities, changing the models of care to more family based provision, managing the price paid where the council is the commissioner and/or where this is taking place with partners with a specific reference to health, improvements in commercial interface including contract management, using technology to enable new ways of working including significant channel shift around self-service and automated business process improvement and a subsequent headcount reduction. A full risk and mitigation summary is provided in Appendix 5.

8. Conclusion

8.1. The council's Medium Term Financial Strategy sets out a challenging but robust financial framework through which planned services and investment can be delivered. It is a fully balanced framework so that:

- revenue expenditure is fully covered by income,
- capital expenditure is fully funded and the associated capital financing cost reflected in revenue budgets,
- effective treasury management ensures financial resources are available as required within a prudent framework
- useable reserves are sufficient to meet specific need and protect against unforeseen events.

9. Recommendation

9.1. That Council adopts the three year Medium Term Financial Strategy as set out in the report.

10. Appendices

Appendix 1	Net Revenue budget
Appendix 2	Approved Capital Investment Programme
Appendix 3	Treasury Management Strategy
Appendix 4	Reserves Policy
Appendix 5	Risk Assessment

10.1.

Appendix 1

Net Revenue budget and Directorate Spending Limits 2017/18

Directorate	Current net budget £000s	Net changes £000s	Draft net budget £000s
	2016/17		2017/18
Adults and wellbeing	51,243	(85)	51,158
Children's wellbeing	20,875	278	21,153
Economies, communities and corporate (ECC)	46,540	(1,800)	44,740
Total directorate net budget	**118,658**	**(1,607)**	**117,051**
Centralised corporate costs			6,458
Capital financing - debt repayments			11,074
Capital financing—interest			6,785
Other central budgets			1,057
One off funding			2,600
Total net spend (budget requirement)			**145,025**
Financed by			
Council tax			93,049
Locally retained business rates			22,419
Revenue support grant			10,090
Business rates top grant & S31 grant			10,197
New homes bonus			3,585
Rural services delivery grant (including transitional grant)			4,669
Adult Social Care support grant			885
Reserves			135
Total Funding			**145,025**

Appendix 2

Approved capital programme

Scheme Name	Prior years £000	2016/17 budget £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Economy, Communities and Corporate						
Energy from Waste Plant	23,412	16,588				40,000
Hereford City Centre Transport Package (includes Hereford city link road)*	17,575	12,124	5,682	4,000	1,270	40,651
Local Transport Plan (LTP)	annual plan	11,633	11,313	10,341	10,341	
Fastershire Broadband (excludes Gloucester spend in prior years of £9.7m)	9,003	6,605	9,747	7,248		32,603
Hereford Enterprise Zone	5,071	3,150	7,779			16,000
Leisure Centres	7,268	2,784				10,052
Solar Photovoltaic Panels	463	1,671				2,134
Data Centre Consolidation	-	1,170				1,170
Corporate Accommodation	18	1,082	1,771			2,871
South Wye Transport Package (total budget of £35m includes £8m funded by LTP, scheme extends into 20/21)*	1,983	1,000	3,500	14,000	6,200	26,683
Hereford Library Accommodation Works	91	909				1,000
Marches business improvement grants	-	833	833	834		2,500
Highway Depot Improvements	-	800				800
IT Network Upgrade	-	500				500
Software to Enable Remote Access to Desktops and Automate Upgrades	-	500				500
Property Estate Enhancement Works	-	500	500	500	500	2,000
LED street lighting	4,750	905				5,655
Childrens wellbeing						
Colwall Primary School	33	4,800	1,667			6,500
Schools Capital Maintenance Grant	annual plan	1,205				
Peterchurch Primary School	6	1,000	4,494			5,500
Preliminary works to inform key investment need throughout the county			300	1,774		2,074
Expansion for Marlbrook school			2,000	726		2,726
SEN & DDA school improvements			710			710
Schools Basic Need	annual plan	666				
Adults and wellbeing						
Disabled facilities grant	annual plan	1,734	tbc			
Private sector housing improvements			800	800	800	2,400
Subject to funding confirmation						
Herefordshire Enterprise Zone			2,500	3,200	500	6,200
Development Partnership project			600	10,000	10,000	20,600
Highway asset management & major infrastructure investment			14,543	7,735	7,000	29,278
Model Farm, Ross on Wye			2,520	4,250	300	7,070
Other schemes less than £500k		*4,877*	*2,013*	*530*		
Total		**77,036**	**73,272**	**65,938**	**36,911**	
Financed by						
Prudential borrowing		39,582	24,456	22,731	14,547	
Grant and funding contributions		32,188	39,071	41,082	22,214	
Capital receipts allocated to capital schemes		5,266	9,745	2,125	150	
Total		**77,036**	**73,272**	**65,938**	**36,911**	

*** both of these schemes are supported by the Marches Local Enterprise Partnership (LEP) and the funding allocations are based on the details contained within the scheme business cases, however as schemes develop and work completes, the individual scheme costs may vary but remain within the overall funding envelope as shown below**

Scheme		LEP Grant £m	Locally funded £m	Total scheme budget £m
Hereford city centre transport package		16	25	41
South wye transport package		27	8	35
Total		**43**	**33**	**76**

Appendix 3

Treasury Management Strategy

Contents

1. Introduction

2. Summary of Strategy for 2017/18

3. Economic Background and Interest Rate Forecast

4. Capital Financing Requirement

5. Borrowing

6. Investment Strategy

7. Annual Minimum Revenue Provision Statement 2017/18

Appendices

a **Existing Borrowing and Investments**

b. Borrowing Levels in Future Years

c. Prudential Indicators

d. Outlook for Interest Rates

e. Treasury Management Policy Statement

1. Introduction

1.1 *The Chartered Institute of Public Finance and Accountancy's* Treasury Management in the Public Services: Code of Practice 2011 Edition *(the CIPFA Code) requires the council to approve a Treasury Management Strategy Statement (TMS) before the start of each financial year. The TMS also includes the Annual Investment Strategy as required under Investment Guidance provided by Communities and Local Government (CLG).*

1.2 The council borrows and 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 council's treasury management strategy.

1.3 The purpose of this TMS is to approve:

- Treasury Management Strategy for 2017/18
- Borrowing – Section 5
- Investments – Section 6
- Minimum Revenue Payment (MRP) Statement – Section 7
- Prudential Indicators - Appendix c

2. Summary of Strategy for 2017/18

Borrowing

2.1 In 2017/18 council borrowing is estimated to decrease by £19.1m from £228.7m to £209.6m. This decrease can be analysed as follows.

	£m
Estimated council borrowing as at 31st March 2017	**228.7**
Capital investment funded by borrowing	**24.5**
Less: Provision for Repayment of Principal (MRP)	**(11.1)**
Grants and contributions	**(34.5)**
Reduction in usable reserves balances	**2.0**
Estimated council borrowing as at 31st March 2018	**209.6**

2.2 The reduction in debt will be largely financed by the capital receipt from the sale of small holdings. Any borrowing requirements will be financed by short term borrowing. Short-term rates are currently significantly lower than longer-term rates and long-term analysis, comparing short-term finance with a long-term loan, has shown this to be the most cost effective approach with savings in the early years outweighing additional amounts payable that may fall due in later years.

2.3 The borrowing budget for 2017/18 includes provision to pay short-term interest rates of up to 1.5% (including brokers commission), we currently secure short term loans at an interest rate of 0.8%. The budget also includes the interest cost on existing fixed term borrowing.

2.4 Compared to a 20 year EIP loan (currently at 2.44%) using short-term finance (at 1.5%) interest cost incurred would be at least £0.5m lower in 2017/18 (being the estimated average amount of short-term debt outstanding during 2017/18 of £61.1m).

2.5 If no longer term PWLB loans are taken out, by 31 March 2018 variable rate short-term loans may total £61.1m (29%) compared to fixed rate longer-term borrowing of £148.5m. This strategy approves a total variable loan stock holding of up to 50% of total loans to minimise the risk of interest rate increases.

2.6 The council's exposure to variable rate debt has been discussed with the council's treasury adviser, Capita Asset Services, who agree with the council's borrowing policy and the consideration of our interest rate forecasting.

Investments

2.7 As a result of current banking regulations which, in the absence of government support, put the council's deposits at risk when banks get into difficulty, the council will:

- Maintain lower investment balances during the year;
- Keep low but liquid cash balances and invest these mainly in Money Market Funds;
- Maintain counterparty limits with the banks at prudent levels;
- Consider other creditworthy investments to increase diversification.

3. Economic Background and Interest Rate Forecast

Economic background

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

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

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

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

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

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

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

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

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

3.10 The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

3.11 What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

3.12 **Gilt yields, and consequently PWLB rates**, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

3.13 **Employment** has been growing steadily during 2016, despite initial expectations that the referendum would cause a fall in employment. However, the latest employment data in November, (for October), showed a distinct slowdown in the rate of employment growth and an increase in the rate of growth of the unemployment claimant count. **House prices** have been rising during 2016 at a modest pace but the pace of increase has been slowing since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

3.14 **USA.** The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, the first estimate for quarter 3 at 2.9% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

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

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

3.17 The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing **the Fed. Rate**. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further. If the Trump package of policies is fully implemented, there is likely to be a significant increase in inflationary pressures which could, in turn, mean that the pace of further Fed. Rate increases will be quicker and stronger than had been previously expected.

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

3.19 **EZ**. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%.

3.20 **EZ GDP growth** in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

Interest rate forecast

3.8 Investment returns are likely to remain low during 2017/18 and beyond.

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

3.10 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.10 A more detailed interest rate forecast provided by the Capita Asset Services is attached at ***Appendix d***.

4 Capital Financing Requirement

4.1 Capital expenditure can be financed in a number of ways including the application of usable capital receipts, a direct charge to revenue, capital grant or by securing an up-front contribution towards the cost of a project.

4.2 Capital expenditure not financed by one of the above methods will increase the capital financing requirement (CFR) of the council.

4.3 The CFR reflects the council's underlying need to finance capital expenditure by borrowing or by other long-term liability arrangements, for example through lease arrangements.

4.4 The use of the term "borrowing" in this context does not necessarily imply external debt since, in accordance with best practice, the council has an integrated treasury management strategy. Borrowing is not associated with specific capital expenditure. The council will, at any point in time, have a number of cash flows both positive and negative and will be managing its position in terms of its borrowings and investments in accordance with its treasury management strategy.

4.5 The forecast movement in the CFR over future years is one of the Prudential Indicators which can be found in Appendix c. The movement in actual external debt and usable reserves (which have a direct bearing on when any internal borrowing may need to be externalised) combine to identify the council's borrowing requirement and potential investment strategy in the current and future years.

	31.03.17 Estimate £000	**31.03.18 Estimate £000**	**31.03.19 Estimate £000**	**31.03.20 Estimate £000**
CFR excluding other long-term liabilities and MRP provision and grants	245,669	258,152	236,174	243,760
Less: Existing Profile of Longer Term Borrowing – PWLB and bank loans	(149,950)	(148,489)	(143,011)	(137,517)
Cumulative Maximum External Borrowing Requirement	95,719	109,663	93,162	106,243
Internal borrowing	(17,000)	(15,000)	(12,000)	(10,000)
Anticipated Capital receipts	0	(33,600)	0	0
Cumulative Net Borrowing Requirement	78,719	61,063	81,162	96,243
Total Council Borrowing	**228,669**	**209,552**	**224,174**	**233,760**

4.6 The above table shows the council's net borrowing requirement over and above its existing long-term loan finance. Part of this requirement relates to the refinancing of principal repaid on long-term EIP and annuity loans with the balance relating to additions to the capital programme financed by borrowing.

4.7 Increased borrowing increases both interest payable and the amount to be set aside from revenue each year for the repayment of loan principal (called Minimum Revenue Provision (MRP)). Annual MRP is estimated to be between £10m and £12.3m as set out in the MTFS. Therefore if, after the large capital schemes scheduled for the next few years are completed, the new capital spend financed by borrowing can be reduced to below the annual MRP the council's total borrowing will fall, as shown in Appendix b.

5 Borrowing Strategy

5.1 At 30 November 2016 the council held £183.6m of loans, comprising long-term fixed rate loans totalling £151.1m plus short-term loans from local authorities of £32.5m. The balance sheet forecast in table 1 shows that the council's borrowing may need to increase to £228.7m by 31 March 2017 and to £209.6m by 31 March 2018, assuming the timing and levels of capital expenditure are as budgeted.

Objective

5.2 The council'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 council's long-term plans change is a secondary objective.

Strategy

5.3 Given the significant cuts to public expenditure and in particular to local government funding, the council'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 use internal resources and borrow using short-term loans.

5.4 This enables the council to reduce net borrowing costs (despite foregone investment income) and reduce overall credit risk by tailoring the timing of borrowing so as to minimise balances held. 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. The councils treasury advisors will assist the council with 'cost of carry' and breakeven analysis. Its output will determine whether the council borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

Sources

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

- Public Works Loan Board (PWLB)
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

5.7 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

LOBO loans

5.8 The council has two LOBO loans (Lender's Option Borrower's Option) of £6m each on which the council pays interest at 4.5%. Every six months, when the interest charges become due, the lenders have the option to increase the interest rate being charged at which point the council can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the council since the decision to amend the terms is entirely at the lender's discretion.

Debt rescheduling

5.9 The PWLB allows the repayment of loans before maturity by either paying a premium or receiving a discount according to a set formula based on current interest rates. Due to the prevailing low interest rate regime, opportunities for debt rescheduling are likely to be very limited. However, this option will be kept under review and will be considered where this is expected to lead to an overall saving or reduction in risk.

6 Investment Strategy

6.1 The council needs to hold adequate funds to meet day to day liquidity needs, for example salary and creditor payments. The council hold balances of around £15m to cover all contingencies. A cash flow forecast is maintained that includes all known receipts and payments so that the council can take action to ensure that it can meet all its liabilities when they fall due.

Objective

6.2 Both the CIPFA Code and the CLG 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 council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and receiving unsuitably low investment income.

Strategy

6.3 Given the increasing risk and continued low returns from short-term unsecured bank deposits, the council will aim to keep its invested funds as low as possible and reduce the amounts invested with banks and building societies. For 2017/18 the council will continue to rely on Money Market Funds which are highly diversified and carry reduced credit risk.

Risk Assessment and Credit Ratings

6.4 The council applies the credit worthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit rating from three main credit rating agencies (Fitch, Moody's and Standard and Poor's). This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Capita Asset Services allocate a series of colour coded bands with suggested maximum durations for investments (as shown in table 2 below).

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

6.6 The council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- (Fitch or equivalents). Currently these countries are:

- Australia (AAA)
- Canada (AAA)
- Denmark (AAA)
- Germany (AAA)
- Luxembourg (AAA)
- Netherlands (AAA)
- Norway (AAA)
- Singapore (AAA)
- Sweden (AAA)
- Switzerland (AAA)
- Finland (AA+)
- Hong Kong (AA+)
- U.S.A. (AA+)
- Abu Dhabi (AA)
- France (AA)
- Qatar (AA)
- UK (AA)
- Belgium (AA-)

Approved Counterparties

6.7 The council will invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

		Colour coding or long term rating	**£ limit**	**Time limit**
Banks and Building Societies	Term deposits, CDs or corporate bonds	Yellow Purple Orange Blue Red Green No colour	£5m £5m £5m £5m £5m £5m nil	5 years 2 years 1 year 1 year 6 months 100 days Not to be used
Council's Banker (NatWest)			£5m	Liquid
DMADF	DMADF account	AAA	Unlimited	6 months
UK Government	UK Gilts	UK sovereign rating	Unlimited	1 year
UK Government	Treasury Bills	UK sovereign rating	Unlimited	1 year
Multilateral development banks	Bonds	AAA	£5m	6 months
Local Authorities	Term deposits		£5m	1 year
Money Market Funds	MMFs	AAA	£5m	Liquid
Enhanced Money Market Funds with a credit score of 1.25	MMFs	Dark pink / AAA	£5m	Liquid
Enhanced Money Market Funds with a credit score of 1.5	MMFs	Light pink / AAA	£5m	Liquid
Other investments:				
Pooled funds		£5m per fund		
Mercia Waste Management (providing finance for Energy from Waste Plant)		£40m over the course of the contract		

Specified Investments

6.8 The CLG Guidance defines specified investments as those:

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

6.10 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.

Non-specified Investments

6.11 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, nor any that are defined as capital expenditure by legislation, such as company shares. 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, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits	
	Cash limit
Total long-term investments	£5m
Total investments with unrecognised credit ratings	£2.5m
Total non-specified investments	£7.5m

7. Annual Minimum Revenue Provision Statement 2017/18

7.1 The council is required to adopt an annual Treasury Management Strategy (**TMS**) each year as part of the budget setting process in order to fully recognise the financial implications arising from its revenue and capital budgets through the capital financing requirement to ensure the impact of capital investment is fully reflected in the revenue budget; this is provided through the minimum revenue provision (MRP). The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

7.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits. The policy for the 2017/18 calculation of MRP is in line with the CLG Guidance and is based on the council's latest estimate of its capital budget. MRP has been set as follows:

	2017/18 Estimated MRP £000
Pre 31/03/11 Supported borrowing (A)	4,279
Prudential borrowing (B)	6,426
Finance leases and Private Finance Initiative (C and D)	369
Total	**11,074**

A For supported capital expenditure before 31 March 2004 MRP has been determined at an appropriate % of the relevant Capital Financing Requirement in respect of that expenditure.

B For unsupported capital expenditure incurred after 31 March 2011, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments starting in the year after the asset becomes operational. Therefore capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19 at the earliest.

C For assets acquired by finance leases or Private Finance Initiatives, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

D For loans and grants towards capital expenditure by third parties, prudential borrowing will be repaid over the life of the asset in relation to which the third party expenditure is incurred.

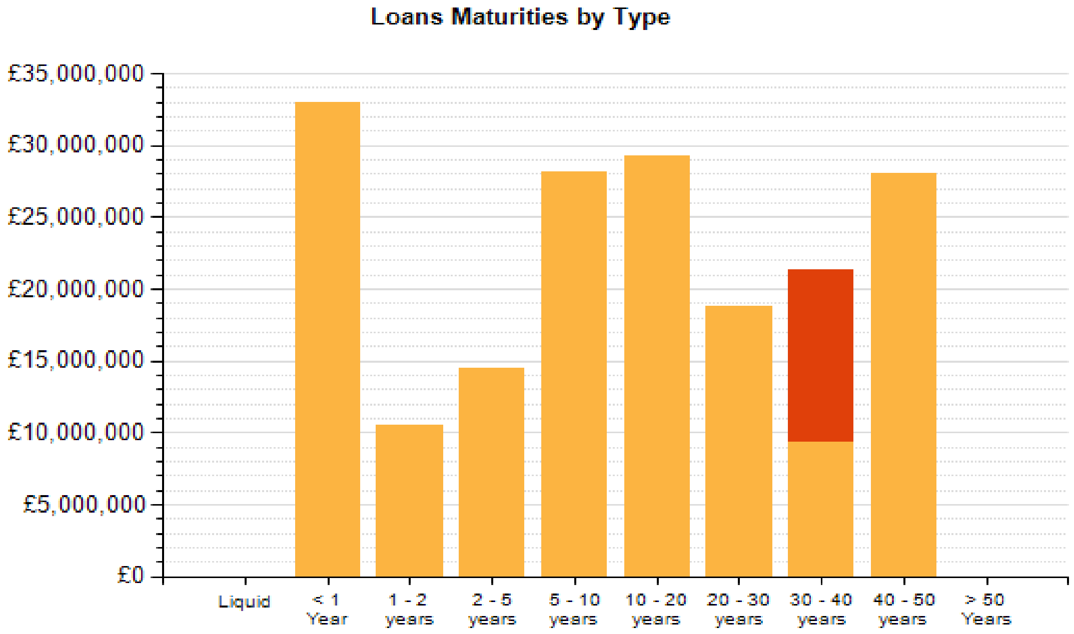
APPENDIX 3a

EXISTING BORROWING & INVESTMENTS AS AT 30 NOVEMBER 2016

External Borrowing:	**Actual Portfolio £m**	**Average Rate %**
Long-term loans (all fixed rate)		
Public Works Loan Board	**139.1**	**3.79%**
LOBO Loans	**12.0**	**4.50%**
Short-term loans		
Local Authorities	**32.5**	**0.73%**
Total External Borrowing	**183.6**	**3.30%**

Investments:	**Actual Portfolio £m**	**Average Rate %**
NatWest Liquidity Account (Instant Access)	**0.4**	**0.01%**
Money Market Funds (Instant Access)	**17.0**	**0.30%**
Total Investments	**17.4**	**0.29%**

APPENDIX 3b



Loans Maturities by Type
£35,000,000
£30,000,000
£25,000,000
£20,000,000
£15,000,000
£10,000,000
£5,000,000
£0
Liquid
< 1 Year
1 - 2 years
2 - 5 years
5 - 10 years
10 - 20 years
20 - 30 years
30 - 40 years
40 - 50 years
> 50 Years

APPENDIX 3c
PRUDENTIAL INDICATORS

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 Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. Estimates of Capital Expenditure

2.1 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 levels.

Capital Programme	**2016/17 £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Expenditure	**77,036**	**73,272**	**65,938**	**36,911**
Funding				
Capital receipt	5,266	9,745	2,125	150
Capital Grants	32,188	39,071	41,082	22,214
Prudential Borrowing	39,582	24,456	22,731	14,547
Total	**77,036**	**73,272**	**65,938**	**36,911**

3. Capital Financing Requirement

3.1 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 financing. The table below includes PFI contracts:

Capital Financing Requirement	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Total CFR	290,123	303,675	312,120

4. Gross Debt and the Capital Financing Requirement

4.1 In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt 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 capital financing requirement for the current and next two financial years.

4.2 The Section 151 Officer reports that the council currently has no difficulty meeting this requirement 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.

5. Operational Boundary for External Debt

5.1 The operational boundary is based on the Authority's estimate of the most likely (i.e. prudent but not worst case) level for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the council's debt.

Operational Boundary	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Operational Boundary for Borrowing	310	290	300
Operational Boundary for other Long-Term Liabilities	30	30	25
Operational Boundary for External Debt	**340**	**320**	**325**

6. Authorised Limit for External Debt

6.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Authorised Limit for Borrowing	320	300	310
Authorised Limit for other Long-Term Liabilities	40	40	40
Authorised Limit for External Debt	**360**	**340**	**350**

7. Ratio of Financing Costs to Net Revenue Stream

7.1 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 and includes both interest payable and provision for repayment of loan principal.

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

Ratio of Financing Costs to Net Revenue Stream	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Net Revenue Stream	**145,025**	141,641	142,021
Financing Costs	**17,859**	17,750	18,568
Percentage	**12.3%**	**12.5%**	**13.0%**

7.3 The above table shows budgeted financing costs within the council's medium term financial strategy.

8. Incremental Impact of Capital Investment Decisions

8.1 This is an indicator of affordability that shows the impact of capital investment decisions on council tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of treasury management to the estimated tax base.

	2017/18 Estimate £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Addition / (reduction) in total treasury budget	663	(109)	818
Estimated tax base (number)	67,598	68,149	68,571
Estimated impact per Band D council tax charge, per annum	**£9.81**	**(£1.60)**	**£11.93**

9. Adoption of the CIPFA Treasury Management Code

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

9.2 The council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices. The council's Treasury Management Policy Statement is attached at Appendix e.

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.

10.2 Due to the large difference between short-term and longer-term interest rates, the limit has been increased to accommodate the council financing the capital programme by short-term variable rate borrowing. Interest rates are forecast to remain low for the next few years and analysis (comparing a twenty year loan with short-term borrowing over the same period) indicates that short-term savings in the next few years will exceed any increased amounts payable in five to ten years time. In pursuing this policy the council recognises that it is more exposed to an unexpected hike in interest rates but the benefits of affordability and flexibility (enabling the council to reduce its short-term borrowing either to reduce cash investments at times of heightened credit risk or when the borrowing can be replaced by the proceeds from fixed asset sales) outweigh the increased interest rate risk.

	2016/17 Approved	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Upper Limit for Fixed Interest Rate Exposure	100%	100%	**100%**	100%	100%
Upper Limit for Variable Interest Rate Exposure	50%	50%	**50%**	50%	50%

11. Maturity Structure of Fixed Rate Borrowing

11.1 The council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

11.2 The maturity of borrowing is determined by reference to the date on which the loans could be repaid. The council's two LOBO loans could become repayable within 12 months although, if the lenders do not increase the interest rates being charged, which is the current assumption, then the loans could remain outstanding until 2054.

Maturity structure of fixed rate borrowing	Estimated level at 31/03/17	Lower Limit for 2017/18	Upper Limit for 2017/18
Under 12 months	20.7%	0%	35%
12 months and within 24 months	0.7%	0%	30%
24 months and within 5 years	6.1%	0%	25%
5 years and within 10 years	12.5%	0%	25%
10 years and within 20 years	22.7%	0%	40%
20 years and within 30 years	13.3%	0%	40%
30 years and within 40 years	13.3%	0%	40%
40 years and within 50 years	10.7%	0%	40%
Total	100.00%		

12. Upper Limit for total principal sums invested over 364 days:

12.1 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.

Upper Limit for total principal sums invested over 364 days	2016/17 Approved £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
	5	**5**	**5**	**5**	**5**

APPENDIX 3d
OUTLOOK FOR INTEREST RATES
(FORECAST & ECONOMIC COMMENT PROVIDED BY TREASURY ADVISORS)

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Base Rate (%)	**0.25**	**0.25**	**0.25**	**0.27**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.50**	**0.50**	**0.75**	**0.75**
PWLB Rates (%):													
5 years	**1.60**	**1.60**	**1.60**	**1.60**	**1.70**	**1.70**	**1.70**	**1.80**	**1.80**	**1.90**	**1.90**	**2.00**	**2.00**
10 years	**2.30**	**2.30**	**2.30**	**2.30**	**2.30**	**2.40**	**2.40**	**2.40**	**2.50**	**2.50**	**2.60**	**2.60**	**2.70**
25 years	**2.90**	**2.90**	**2.90**	**3.00**	**3.00**	**3.00**	**3.10**	**3.10**	**3.20**	**3.20**	**3.30**	**3.30**	**3.40**
50 years	**2.70**	**2.70**	**2.70**	**2.80**	**2.80**	**2.80**	**2.90**	**2.90**	**3.00**	**3.00**	**3.10**	**3.10**	**3.20**
The above PWLB rates are noted by Capita Asset Services as being their "central" or most likely forecast, however, they also note that there are upside and downside risks to their forecast.													

Forecast:

- The council's treasury advisors forecast the bank base rate to stay on hold until quarter two of 2019 at which point small stepped increases are anticipated. It is anticipated the bank base rate standing at 0.75% at March 2020. Capital Economics has a similar interest rate forecast profile to the aforementioned.

Council budget:

- As can be seen from the table above, the council's treasury advisors central forecast is for the Bank Base Rate to remain at 0.25% during 2017/18. The council's short-term borrowing budget has been based on a rate of up to 1.5% which should incorporate sufficient headroom to accommodate any unexpected changes in the Base Rate.

- The investment budget is based on the majority of funds being held in instant access accounts generating low returns.

- Should the Bank Base Rate increase sooner or more rapidly than forecast the increased yield on investments will partly offset any increase in short-term variable rates.

Appendix 4

Reserves Policy

1. Introduction

1.1. The Local Government Act 2003 requires the Chief Finance Officer (section 151 officer) to report on the adequacy of reserves and provisions, and the robustness of budget estimates, as part of the annual budget setting process.

1.2. Best practice guidance does not advise on the actual level of unallocated general reserves, but on the processes that should be in place. There is a broad range within which a council might reasonably operate, depending on its particular circumstances and each council should make its own judgement, based on the advice of its Chief Finance Officer. In making this decision the Chief Finance Officer takes account of strategic, operational and financial risks. The financial risks are assessed in the context of the council's overall approach to risk management.

1.3. CIPFA best practice guidance suggests that a Council should hold a strategic reserve to mitigate the financial impact of major events of between 3% and 5% of its net budget. This guidance has been adopted by the Chief finance Officer for the period of the current MTFS.

2. Adequacy of Proposed Financial Reserves and Robustness of Estimates

2.1. The Chief Finance Officer must ensure that the budget setting process, and the information provided is sufficient, to allow council to come to an informed view regarding the 2017/18 council tax requirement, revenue budget, capital programme and Treasury Management Strategy.

2.2. While the council continues to operate within the financial constraints arising from increasing financial pressures and reductions in central government financial settlements, robust budget monitoring and a thorough financial planning process should determine the required level of reserves. The level of reserves will be reviewed at each quarter end as part of the council's budget monitoring reports.

2.3. Financial and operational risks need to be considered within the context of the Council's overall approach to risk manage and account taken of key budget assumptions and existing financial management arrangements.

2.4. The council's financial planning process should be sufficient to identify issues with a significant financial impact in order for these to be highlighted to senior officers in a timely manner.

2.5. An annual review of the council's reserves and balances is undertaken as part of the annual financial planning exercise and as part of the council's preparation of its annual Statement of Accounts. The level of reserves appears adequate for the forthcoming financial year and financial planning period through the continuing commitment to manage service expenditure within approved budgets

2.6. The Council makes appropriate financial provisions for known future liabilities or losses of uncertain timings or amount. These are detailed in the annual Statement of Accounts. The 2015/16 Statement was approved by Audit and Governance Committee on 24 September 2016 and for 2016/17, the draft Statement will be presented to Audit and Governance Committee in July 2017.

3. Review of Reserves

3.1. The overall reserves of the council will be subject to detailed review at the end of each financial year as part of the preparation for the production of the council's statement of accounts, and as part of the council's annual budget setting process to ensure reserves are

3.1.1. Relevant,
3.1.2. Appropriate, and
3.1.3. Prudent.

3.2. The Chief Finance Officer will ensure that the council has in place well established robust and regular budget monitoring processes. These take account of the current level of reserves, the latest budget requirements calling on reserves to meet current commitments and to make contributions to reserves to meet future commitments.

3.3. The Chief Finance Officer must consider strategic, operational and financial risks in assessing the adequacy of the council's reserves position.

4. Use of Reserves

4.1. Approval to use or make contributions to reserves is provided by the Chief Finance Officer, as part of the regular budgetary process, in discussion with the Chief Executive and Leader of the Cabinet

4.2. Movements in reserve will be reported to Council as part of the financial Outturn at the end of the financial year.

5. Conclusion

5.1. The Chief Finance Officer is satisfied that the Council's ongoing approach to its reserves and provisions is robust. The council's strategic reserve is maintained between 3% - 5% of the net budget requirement, at the end of March 2016 the balance was £7.2m (5% of net budget).

5.2. This is sufficient to ensure that the council has adequate resources to fund unforeseen financial liabilities, and that the council's approach to general balances for 2017/18 is deemed appropriate. The level of reserves and expected movement in reserves are set out in the MTFS as part of the annual budget setting process.

5.3.

Appendix 5
Key risk Assessment

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
1	**Unexpected events or emergencies** By its nature, the financial risk is uncertain	Low	High	• Council maintains a Strategic Reserve at alevel of between 3% and 5% of its revenue budget for emergency purposes • Level of reserve is currently £7.3m (5% of budget)
2	**Increasing demand for Adult Social Care** Demand for services continue to increase as the population gets older	High	Medium	• Demand led pressures provided for within our spending plans • Activity indicators have been developed and will be reported quarterly alongside budget monitoring
3	**Potential Overspend and Council does not deliver required level of savings to balance spending plans** Challenging savings have been identified within our spending plans.	Medium	Medium	• High risk budget areas have been identified and financial support is targeted towards these areas • Regular progress reports on delivery of savings to Management Board and Cabinet • Budget monitoring arrangements for forecasting year end position in place and forecast balanced • Plan to review level of cover available from General reserves in place
4	**Potential delay in delivery of Capital Receipts**	Medium	Low	• Potential new capital receipts may be available from further corporate property sales. • Capital receipts received will be monitored quarterly
5	**Increase in Pension Liabilities** Our contributions are influenced by market investment returns and increasing life expectancy.	Medium	Low	• Spending plans reflect the level of pension contribution required as identified by the Pension Fund's Actuary in 2016 for the next three years
7	**Failure to provide safeguarding and placements for children** There is an increasing requirement to provide sufficient school places There is a rising number of children requiring specific support	Medium	High	• Provision has been made in the capital programme to increase school places • Directorate plans in place to manage and mitigate demand • Ongoing reviews of children already under care of council
8	**Volatility in future funding streams in Government funding streams and Business Rates Retention**	High	Medium	• Prudent assumptions made in budget • Ongoing review of developing business rate changes • Business case to support future investment decisions
9	**Brexit** Impact of EU exit may lead to increased volatility in economic stability and reduced access to funds	Medium	Medium	• Reduced reliance on grant funding in all directorates • Increased local economic and social investment to