Tewkesbury Borough Council

26 January 2016

Committee	Executive
Date	Wednesday, 3 February 2016
Time of Meeting	2:00 pm
Venue	Committee Room 1

ALL MEMBERS OF THE COMMITTEE ARE REQUESTED TO ATTEND

for Sara J Freckleton
Borough Solicitor

Agenda

1. ANNOUNCEMENTS

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2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive apologies for absence and advise of any substitutions.

	Item	Page(s)
3.	**DECLARATIONS OF INTEREST**	
	Pursuant to the adoption by the Council on 26 June 2012 of the Tewkesbury Borough Council Code of Conduct, effective from 1 July 2012, as set out in Minute No. CL.34, Members are invited to declare any interest they may have in the business set out on the Agenda to which the approved Code applies.	
4.	**MINUTES**	1 - 10
	To approve the Minutes of the meeting held on 13 January 2016.	
5.	**ITEMS FROM MEMBERS OF THE PUBLIC**	
	To receive any questions, deputations or petitions submitted under Rule of Procedure 12. *(The deadline for public participation submissions for this meeting is 28 January 2016)*	
6.	**EXECUTIVE COMMITTEE FORWARD PLAN**	11 - 13
	To consider the Committee's Forward Plan.	
7.	**WASTE SERVICE REVIEW AND VEHICLE PROCUREMENT**	14 - 28
	To adopt a revised model for the waste and recycling service and to make a recommendation to Council on the approval of capital resources to fund the vehicle replacement programme.	
8.	**GLOUCESTER, CHELTENHAM AND TEWKESBURY JOINT CORE STRATEGY ADDITIONAL BUDGET REQUEST**	29 - 31
	To approve the use of £135,000 of reserves within 2016/17 to further support the Joint Core Strategy.	
9.	**BUDGET 2016/17**	32 - 75
	To recommend a budget to Council for 2016/17.	
10.	**SEPARATE BUSINESS**	
	The Chairman will move the adoption of the following resolution: That under Section 100(A)(4) Local Government Act 1972, the public be excluded for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.	
11.	**SEPARATE MINUTES**	76 - 78
	To approve the separate Minutes of the meeting held on 13 January 2016.	

DATE OF NEXT MEETING

WEDNESDAY, 6 APRIL 2016

COUNCILLORS CONSTITUTING COMMITTEE

Councillors: R E Allen, Mrs K J Berry, R A Bird, D M M Davies, M Dean, Mrs E J MacTiernan, J R Mason, R J E Vines (Chairman) and D J Waters (Vice-Chairman)

Substitution Arrangements

The Council has a substitution procedure and any substitutions will be announced at the beginning of the meeting.

Recording of Meetings

Please be aware that the proceedings of this meeting may be recorded and this may include recording of persons seated in the public gallery or speaking at the meeting. Please notify the Democratic Services Officer if you have any objections to this practice and the Chairman will take reasonable steps to ensure that any request not to be recorded is complied with.

Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the public and press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

TEWKESBURY BOROUGH COUNCIL

Minutes of a Meeting of the Executive Committee held at the Council Offices, Gloucester Road, Tewkesbury on Wednesday, 13 January 2016 commencing at 2:00 pm

Present:

Chairman	Councillor R J E Vines
Vice Chairman	Councillor D J Waters

and Councillors:

R E Allen, Mrs K J Berry, Mrs G F Blackwell (Substitute for R A Bird), D M M Davies, M Dean, Mrs E J MacTiernan and J R Mason

also present:

Councillors P W Awford

EX.57 ANNOUNCEMENTS

57.1 The evacuation procedure, as noted on the Agenda, was advised to those present.

57.2 The Chairman indicated that he had used his discretion to amend the order of the Agenda so that Item 11, Materials Recovery facilities (MRF) Contract Variation, would be considered after Item 6, Executive Committee Forward Plan.

57.3 Councillor P W Awford was welcomed to the meeting. The Chairman indicated that he was in attendance as Chairman of the Overview and Scrutiny Committee to introduce Item 7, Performance Management Report – Quarter Two 2015/16.

EX.58 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

58.1 An apology for absence had been received from Councillor R A Bird. Councillor Mrs G F Blackwell would be acting as a substitute for the meeting.

EX.59 DECLARATIONS OF INTEREST

59.1 The Committee's attention was drawn to the Tewkesbury Borough Council Code of Conduct which was adopted by the Council on 26 June 2012 and took effect from 1 July 2012.

59.2 There were no declarations of interest made on this occasion.

EX.60 MINUTES

60.1 The Minutes of the meeting held on 25 November 2015, copies of which had been circulated, were approved as a correct record and signed by the Chairman.

EX.61 ITEMS FROM MEMBERS OF THE PUBLIC

61.1 There were no items from members of the public on this occasion.

EX.62 EXECUTIVE COMMITTEE FORWARD PLAN

62.1 Attention was drawn to the Committee's Forward Plan, circulated at Pages No. 14-18. Members were asked to consider the Plan.

62.2 Accordingly, it was

RESOLVED: That the Committee's Forward Plan be **NOTED**.

EX.63 MATERIALS RECOVERY FACILITIES (MRF) CONTRACT VARIATION

63.1 The report of the Environmental and Housing Services Group Manager, circulated at Pages No. 117-122, provided the Committee with information about a possible contract variation for its Materials Recovery Facility (MRF) and asked for approval of the use of £222,500 of earmarked reserves to cover the increased cost for 2016/17.

63.2 Members were advised that, in April 2014, the Council had entered into a three year contract for the processing, sorting and selling of its comingled dry recycled materials. Since January 2015 there had been problems with contamination in the recyclate stream and, over that period, there had been more than 30 incidents of needles being found within the material; this had resulted in increased risks to staff and had an impact upon the sorting process. The contractor was responsible for the health and safety of its operatives and, despite attempts to manage the situation, material had been rejected from specific waste rounds. As a result, nine full loads and part loads of material had been diverted to landfill. Officers from Tewkesbury Borough Council and the Joint Waste Team had continued to work with various organisations to try to educate residents and resolve the issue on safe disposal of needles.

63.3 The consequences of contaminated loads of recyclate reaching the MRF were that the plant would be stopped, emptied and the contaminated material sent to landfill for disposal. This generated a cost in downtime due to the stoppage and disposal of material as well as a loss in revenue which could have been gained if the material was processed and sold for recovery. Grundon had indicated that it would continue to accept the Council's recyclate materials but that it had to slow down the process to allow more time for the contamination to be removed and dealt with safely. In addition, there would be a two stage exercise introduced to split the material; the first run would drop bottles, cans, glass etc., and anything under 120mm in size, this would reduce the density of material going into the picking line and allow the pickers a better opportunity to identify any needles. The material that was dropped out in the first phase would then be run again with anything up to 50mm in size which would allow a better level of material through the plant and another opportunity to identify needles. The process identified would involve additional costs.

63.4 The current contract was due to expire in April 2017, therefore a tendering and procurement exercise would look to address the issues and the future costs. Members were advised that the current contract had been agreed at an advantageous price for the Council. Since that time there had been significant fluctuations in the commodity markets, and the global economy, which had impacted on the price of recycled materials; this meant that, whilst the contamination issue sat outside of the bigger picture, it was clear that, in any revisiting of the market place for MRF facilities, the Council would need to consider potential increased costs for the future.

63.5 A Member questioned whether the contamination issue was a problem in specific areas or whether it was Borough-wide. In response, she was advised that it had initially been in specific areas but now it appeared to be more widespread. The Deputy Chief Executive explained that the Council was extremely fortunate with the low level price that it had on the current contract which had met the Council's budgetary requirements at the time. However, this came with compromises which meant the equipment was possibly not as sophisticated as some. The contractor had been extremely proactive in working with the Council to resolve the issues faced which had been very helpful. The recycling environment was complex and volatile with the value of recycling materials also being volatile; the price of the MRF contract was dependent upon what the recyclate could be sold for. A Member questioned whether Tewkesbury Borough was the only authority with the problem. In response, the Deputy Chief Executive advised that Tewkesbury was the only authority in the County that operated a comingled service; it was that which caused the issue as there was less chance of contamination when items were sorted at the kerbside.

63.6 One Member expressed great concern about the additional cost which had been suggested and she questioned whether it really was a fair price; whether negotiations had taken place; and what the current cost of the contract was. In response, it was explained that the negotiation process had been very detailed and had been carried out by Officers from legal and finance, as well as receiving independent advice, and a compromise solution had been reached with an acceptable price for both parties. It was a fact that the contractor could refuse to accept loads where there was a significant health and safety risk and the cost of that over and above the contract, as well as the loss of recycling credits, was significant.

63.7 Having considered the information provided, it was

RESOLVED: That the use of £222,500 of earmarked reserves to cover the increased cost of the Materials Recovery Facilities Contract for 2016/17 be **APPROVED**.

EX.64 PERFORMANCE MANAGEMENT REPORT - QUARTER TWO 2015/16

64.1 The report of the Chairman of the Overview and Scrutiny Committee, circulated at Pages No. 19-72, asked Members to review and, if appropriate, take action against the observations of the Overview and Scrutiny Committee following its review of the 2015/16 quarter two performance management information.

64.2 Attention was drawn to the observations made by the Overview and Scrutiny Committee, attached to the report at Appendix 1; the Council Plan Performance Tracker, attached at Appendix 2; the Key Performance Indicator set, attached at Appendix 3; Revenue Budget Summary Statement, attached at Appendix 4; the Capital Monitoring Statement attached at Appendix 5; and the Revenues Position Summary which was attached to the report at Appendix 6. The Chairman of the Overview and Scrutiny Committee explained that his Committee was becoming much more challenging now which he felt was encouraging.

64.3 In offering an overview of the Committee's discussion, the Overview and Scrutiny Committee Chairman advised that progress on Council performance over the past quarter was generally good with some key areas of excellent performance such as the new leisure centre and the processing times for benefits applications. Given the level of detail, and range of performance reported, Members were also made aware of areas that were not progressing as planned. A Member had noted from the performance report that waste to landfill had increased and, in response, the Deputy Chief Executive had explained that recycling was becoming increasingly contaminated which could result in it not being accepted at the Materials Recovery Facility (MRF). Members had also been informed that a recent food waste campaign had resulted in a 20 percent increase in food waste recycling. In terms of an update on agreeing an approach and programme of work for the Community Infrastructure Levy (CIL), the Deputy Chief Executive explained that a Preliminary Draft Charging Schedule (PDCS) had been out to consultation in the summer. 30 responses had been received from developers and the next big step was to decide on whether to charge for strategic allocations. In terms of delivery, until the outcome of the JCS examination was known, it was very difficult to make any decisions in relation to CIL charges. The Deputy Chief Executive was hopeful that a future report would give a clear direction for Officers to move onto the next stage of consultation in respect of the CIL. In terms of the reduction in the number of homeless applications, the Committee had recognised the hard work which had been carried out to achieve this. With regard to the average number of sickness absences, the Committee was delighted to note the improvement. The Chief Executive had also made Members aware of a new Development Management team staff structure which it was hoped would address the problems with resources in that area. In terms of Overview and Scrutiny generally, the Chairman was keen to ensure its ongoing effectiveness. To support this, the Corporate team had developed a quarterly newsletter for all Members which would provide a range of information on Overview and Scrutiny matters, including what the Committee had been working on, as well as what was happening in Committees across the County and beyond. The Chairman advised that he had also asked Democratic Services to book a speed reading course for all Members, which would take place on 2 February. This would be extremely helpful, given the length of some of the Committee reports Members were asked to read. There would also be a workshop for Overview and Scrutiny Committee Members coming soon, which would allow them to give their views on how the Committee was working. This would be especially useful given the majority of the Committee was made up of new Members and they could perhaps offer ideas on how the Council could scrutinise more effectively.

64.4 During the discussion which ensued, a Member referred to Page No. 34, Review customer feedback systems in service areas to ensure there is a consistent and appropriate approach, and questioned why there was no indication of the progress made to date. In response, the Corporate Services Group Manager indicated that this had been a recommendation from the Peer Challenge Team but it had not yet commenced as a project; it was anticipated that it would commence this quarter but was also part of the new Customer Care Standards which were currently being worked up. In reference to Page No. 45, Work in partnership with Citizens' Advice Bureau to provide better outcomes for our residents, a Member expressed concern that the figures provided were 'skewed' as some areas were split down into specific areas and some were not. She also noted that reference was made to 'Cleeve St Johns' and advised that this should read 'Churchdown St Johns'; she explained that she had asked for this to be amended on a number of occasions. In response, the Deputy Chief Executive indicated that the information within the report was an analysis of the information provided by the Citizens' Advice Bureau and, as such, needed to be addressed by Officers. In respect of the Bureau in Winchcombe, a Member noted that it used to be operated as a drop-in but now residents needed to make an appointment, he questioned whether this was the case across the Borough or just in Winchcombe. The Deputy Chief Executive undertook to investigate. A Member indicated that the Council used to have a representative on the Gloucester and District Citizens' Advice Bureau and he questioned whether this was still the case. The Borough Solicitor advised that it remained the case and she would advise who the representative was after the meeting. The Chairman of the Overview and Scrutiny Committee advised that his Committee would receive its annual report from the Citizens Advice Bureau at its meeting on 23 February and he invited any Members that wished to hear that to come along to the meeting. Attention was also drawn to Page No. 28 and a Member requested an update on the Community Infrastructure Levy. In response, the Deputy Chief Executive advised that the report which had been commissioned had now been received and was being reviewed by Officers. It made recommendations on the application of the CIL and the best way to get the maximum income from it. There was some national consultation currently ongoing on how effective it was and the Council's Member Working Group would meet in the next few weeks to discuss this; there would then be an all Member seminar on the subject with a report to Council prior to the Joint Core Strategy process being concluded. There were no exact timescales available at this time.

64.5 Having considered the information provided, it was

RESOLVED: That the Overview and Scrutiny Committee's comments on the Performance Management Report for Quarter Two of 2015/16 be **NOTED**.

EX.65 GRANT TO ALDERTON PARISH COUNCIL

65.1 The report of the Finance and Asset Management Group Manager, circulated at Pages No. 73-83, set out the situation regarding a grant provided to Alderton Parish Council a number of years ago. Members were asked to consider the situation and approve the extension of the grant offer to Alderton Parish Council until 31 August 2016 to allow the delivery of the project; and, in the event of the project not commencing by 31 August 2016, to approve the transfer of the £35,000 capital balance to the Grants Working Group for redistribution.

65.2 The Finance and Asset Management Group Manager explained that, in November 2000, the Executive Committee had awarded a grant to Alderton Parish Council of £20,250 for the development of a sports pavilion. In November 2004 a further grant of £14,750 had been agreed by the Strategy and Resources Committee which gave a total in grant funding of £35,000 from the Borough Council towards the project. Following the award, the Parish Council had hoped to secure additional funding from other providers and to commence the works in early 2005. The Parish Council had established a Community Trust to take the project forward, and to secure additional funding, and, whilst that Trust had been successfully awarded £10,000 from Entrust, it had struggled to attract the additional financing required. In December 2009, the Executive Committee had formed a Grants Working Group to administer the grants process on behalf of the Council and part of the remit of that Working Group was to review the progress of grants awarded and, if necessary, to withdraw the grant offer if progress was not being made.

65.3 In respect of the current position, the Finance and Asset Management Group Manager explained that, at its meeting in September 2015, the Grants Working Group had considered the latest position of the sports pavilion and, whilst support for the overall project aim remained, it was felt that holding the grant available for nearly 11 years, and nearly 15 years in the case of the original grant, was more than sufficient to allow the project to be delivered. With this in mind the Working Group had felt that the current grant offer should be withdrawn and the Parish Council encouraged to reapply when it was in a position to deliver the project. Whilst the Working Group had authority within the Scheme to withdraw grants that it had awarded this did not extend to grants that were awarded prior to its commencement. The Alderton grant clearly pre-dated the existence of the Working Group and therefore the matter was referred to the Executive Committee for a decision. Further information had been provided by the Parish Council, which was now proposing a smaller project, and this had been attached to the report for information at Appendix A. The availability of Section 106 funding to support the project had now greatly changed the likelihood of the project being delivered; with over £50,000 being available following recent development in the village. There now appeared to be a renewed impetus behind the group formed to deliver the project which would, when delivered, provide a much needed recreational facility within the village. With this in mind, Officers had gone back to the Grants Working Group and it had been felt that the grant offer should be extended to 31 August 2016 to allow the works to commence. If the works had not commenced by that date then the grant would be withdrawn and returned to the grants balances for redistribution.

65.4 During the brief discussion which ensued, a Member expressed a hope that the Committee would support the recommendation on the paper. He explained that there were many problems for smaller communities in trying to get a project like this up and running. The big issue in this case was that the Council had provided a grant and following that Alderton had applied to Sport England which had been where the real problems had begun. Sport England had wanted to see something much grander than the Parish really required and had insisted on a scheme like that being developed before it would offer a grant. Sport England now seemed to understand a 'one size fits all' approach was not appropriate in all cases and the village was able to build the pavilion it wanted. There was a team in place now which was dedicated to building the pavilion and he hoped Members could support them in their efforts as this really was a facility that was very much needed in the area. Another Member agreed that he would like to see the project going forward. He understood that it had been a long time in the making but it had been beset by difficulties and he felt that, to allow it to move forward, would justify the original decision which had been made many years ago. He was encouraged to see mention of the Grants Officer who he felt had been doing excellent work since the creation of her post.

65.5 Having considered the information provided, it was

RESOLVED:

1. That, to allow the project to be delivered, the grant offer previously made to Alderton Parish Council be extended until 31 August 2016.
2. That, should the project not commence by 31 August 2016, the grant offer will be withdrawn and the £35,000 capital balance will be transferred to the Grants Working Group for redistribution.

EX.66 PROCUREMENT OF ENERGY

66.1 The report of the Finance and Asset Management Group Manager, circulated at Pages No. 84-88, detailed options for the Council in terms of its energy contract and Members were asked to agree the entering into of a new three year contract for energy supplies with West Mercia Energy, with the option to extend for a further two years; and to agree that Tewkesbury Borough Council should become the lead authority within a partnership arrangement with Gloucester City Council.

66.2 The Committee was advised that the Council's current Contract Procedure Rules required that all contract awards over the European Union threshold were approved by the Executive Committee. The contract with West Mercia Energy offered the Council a product that enabled it to purchase gas and electricity on the wholesale market with the ability to purchase and sell energy throughout the contract term which ensured best value for the purchase price of energy; the contract was within current budgets. The Council's current contract was with West Mercia Energy but was due to expire on 31 March 2016. West Mercia Energy was a local purchasing organisation which had been established under Section 101 of the Local Government Act 1972 and comprised four constituent authorities. It was a framework agreement and had Official Journal of the European Union (OJEU) notices for the contracts it had with energy companies. In order to access that framework agreement, a purchaser had to have a certain size of energy requirements; on its own Tewkesbury Borough did not have the necessary energy requirements and so a partnership arrangement with Gloucester City, Forest of Dean District and Cotswold District Councils had been entered into previously. Forest of Dean and Cotswold District Councils had both previously opted to leave the consortium and follow other opportunities; however, they were now both reassessing that decision. Together, Tewkesbury Borough and Gloucester City Councils had energy demands which were still of a sufficient size to gain access to the framework. With this in mind it was suggested that a three year contract, with the possible extension of a further two years, was entered into. In addition, given the Council's expertise with energy contracts, and that particular framework, it was suggested that Tewkesbury became the lead authority for the consortium. This would simply mean that Tewkesbury was the specific point of contact for the framework operators on behalf of the consortium rather than there being any financial liability placed upon it.

66.3 Particular attention was drawn to the table set out at Paragraph 1.5 of the report which compared the prices paid over the last four years in terms of the baseline, market average and review point. The Finance and Asset Management Group Manager explained that all of the comparisons except one were green which meant there were savings on the contract in excess of what the market price would be. In response to a query regarding the Government's debate on the price of electricity, the Finance and Asset Management Group Manager indicated that the contract would ensure as much flexibility as possible.

66.4 Accordingly, it was

RESOLVED:

1. That the Council enters into a new three year contract for energy supplies, with the option to extend for a further two years, with West Mercia Energy.
2. That Tewkesbury Borough Council becomes the lead authority within the partnership arrangement with Gloucester City Council.

EX.67 CONTRACT PROCEDURE RULES

67.1 The report of the Finance and Asset Management Group Manager, circulated at Pages No. 89-116, set out revised Contract Procedure Rules and Members were asked to recommend to Council that the revised Rules were approved.

67.2 Members were advised that the Council's Contract Procedure Rules had last been fully updated in December 2006; although authority was given to the Borough Solicitor to approve minor amendments, the Contract Procedure Rules were now nearly ten years old and in need of revision to reflect the latest EU Directive and Public Contracts Regulations 2015 as well as the increased value of purchases. The Council was required to adopt Contract Rules in order to comply with Section 135 of the Local Government Act 1972 which required all local authorities to make standing orders with respect to the making of contracts by them or their behalf.

67.3 Attention was drawn to the revised Rules, attached to the report at Appendix A, and Members were advised that best practice had been sought when informing their development. The main changes recommended against the current Rules included: increased thresholds for low, intermediate and high value procurement; a legal requirement for any contract with a 'whole life' value in excess of £25,000 to be advertised on the Government's contract finder website; a requirement to keep a contracts register of all contracts over £5,000 in line with the Local Authorities Transparency Code 2015; a legal requirement for electronic tendering; and an open tender process to be used from 1 January 2016 for all procurements under the EU threshold of £164,176.00. If the revised Rules were approved by Council on 26 January 2016 it was intended that they would become active for all procurement activities with effect from 1 February 2016. A revised procurement toolkit would be issued to Officers and training would also be provided.

67.4 A Member questioned whether the Public Contracts Regulations 2015 applied to all bodies of Local Government and, in response, the Finance and Asset Management Group Manager explained that he would need to look at the Regulations and advise the Councillor following the meeting. A Member suggested that better communication was required throughout the Council when contracts were considered, in response; he was advised that the Contract Procedure Rules would not address this but Officers were aware that this needed to be looked at corporately; particularly where IT systems were concerned. The Chief Executive advised that the Council was reviewing its corporate governance arrangements at management levels in terms of IT procurement as this had been one of the recommendations from the recent IT review. It was understood that consideration needed to be given to all contracts, not just IT, and a Member suggested that Group Managers, as well as the Corporate Leadership Team, should be involved in this.

67.5 Accordingly, it was

RESOLVED: That it be **RECOMMENDED TO COUNCIL** that the updated Contract Procedure Rules, as appended to the report, be **APPROVED**.

EX.68 PLACE PROGRAMME

68.1 The report of the Deputy Chief Executive, circulated at Pages No. 123-130, set out the approach taken within the pilot that had been ongoing in the east of the Borough and asked that Members endorse the place programme approach and its implementation across the whole Borough.

68.2 The Deputy Chief Executive explained that the place programme had been a concept for a while and was part of the 'culture of people' strand of the Council's transformation programme to make it a more effective organisation. The Council, in common with the whole of the public sector, faced reduced funding over coming years and it was felt that there was a need to build capacity and resilience within communities to support them in an age of those continuing reductions. The place programme was really an internal change project which would broaden Officers' understanding of the communities in the Borough as well as enhancing support to Councillors in their community leadership roles. It was felt that the Council had many resources to offer communities such as skills, capacity, information etc. and these could be better provided to enable community action.

68.3 The pilot in the east of the Borough had shown a different way of thinking; Officer meetings, across service areas, were held to discuss projects, problems, planning applications etc. in the area and also Member meetings were held on a quarterly basis to share information and raise relevant concerns. There had been a lot of positive feedback received from the Members engaged to date. Officers had also spoken to the Council's partners about the approach and many had expressed a wish to participate; it was intended that the approach would become 'business as usual' at some point but this was a change in culture amongst the workforce which may take some time to embed across the whole authority. Members were asked to endorse the approach so that it could be rolled out across the Borough.

68.4 During the discussion which ensued, Members offered their congratulations on the way the project had worked so far. They indicated that the pilot had done a lot of excellent work and they were looking forward to the roll out so that the rest of the Borough could benefit. One Member expressed the view that people from outside of the Council did not seem to know what the place programme approach was and he felt that there was work to do with Parishes in that regard. In response, the Deputy Chief Executive explained that this was an internal approach to how the Council could do things differently. It was hoped that people outside of the Council would see a difference but it was not something that had necessarily been 'advertised'. Presentations had been made to Parishes at the Parish Seminars/Clerks events and more could be done if it was felt necessary. The three Community Development Officers had been working within the Parishes in each of their areas to build links and this would be further strengthened once the place programme approach was rolled out. Other Members confirmed that this was what had happened in the east area where the Community Development Officer was well known to the Parishes she worked with. They reiterated that the project had been excellent and they felt that all of the initiatives introduced, i.e. Member meetings; local working; community support etc., had been fantastic.

68.5 Accordingly, it was

RESOLVED: That the full implementation of the Place Programme across the Borough be **ENDORSED**.

EX.69 SEPARATE BUSINESS

69.1 The Chairman proposed, and it was

RESOLVED That, under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely discussion of exempt information as defined in Part 1 of Schedule 12A of the Act.

EX.70 INVESTIGATION INTO HEALTH AND SAFETY ACCIDENT AT WM MORRISON PLC TEWKESBURY

(Exempt –Paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972 –Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime)

70.1 The Committee considered the financial costs and resources anticipated to be incurred as a result of a health and safety investigation and agreed to the expenditure as requested.

EX.71 IRRECOVERABLE DEBTS FOR WRITE OFF

(Exempt –Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 –Information relating to the financial or business affairs of any particular person (including the authority holding that information))

71.1 Members considered the report, and the debts as identified in the schedule appended to it, and approved the write-offs as requested.

The meeting closed at 3:50 pm

EXECUTIVE COMMITTEE FORWARD PLAN

FEBRUARY 2016 TO JULY 2016 (No Meeting in March/May)

REGULAR ITEM:

- **Forward Plan – to note the forthcoming items.**

Committee Date: 6 April 2016			
Agenda Item	**Overview of Agenda Item**	**Lead Officer**	**Has agenda item previously been deferred? Details and date of deferment required**
Performance Management Report – Quarter Three 2015/16.	To receive and respond to the findings of the Overview and Scrutiny Committee's review of the quarter three performance management information.	Graeme Simpson, Corporate Services Group Manager.	No.
Flood Risk Management Group Terms of Reference and Action Plan (Annual Review).	To undertake an annual review of the Terms of Reference of the Flood Risk Management Group and action plan.	Val Garside, Environmental and Housing Services Group Manager.	No.
Council Plan Update (Annual).	To recommend to Council.	Graeme Simpson, Corporate Services Group Manager.	No.
High Level Service Plan Summaries (Annual).	To consider the key activities of each service grouping during 2016/17.	Graeme Simpson, Corporate Services Group Manager.	No.

Committee Date: 6 April 2016

Agenda Item	**Overview of Agenda Item**	**Lead Officer**	**Has agenda item previously been deferred? Details and date of deferment required**
Policy for Localism Agenda on Revenues and Benefits.	To consider a new discretionary relief for Business rates under the Localism Agenda.	Richard Horton, Revenues and Benefits Group Manager.	No.
Cemetery Provision in Tewkesbury.	**To review the options for the provision of cemetery facilities within Tewkesbury.**	**Simon Dix, Finance and Asset Management Group Manager.**	**Yes – deferred from 13 January 2016.**
Customer Care Strategy.	**To approve a Strategy that will set out how the Council will provide a high quality customer service so we serve our customers in an open, inclusive and efficient manner.**	**Graeme Simpson, Corporate Services Group Manager.**	**Yes - deferred from 13 January 2016 Meeting to allow for an Overview and Scrutiny Committee Review.**
Revisions to the Redundancy and Redeployment Policy.	**To approve amendments to the Redundancy and Redeployment Policy.**	**Graeme Simpson, Corporate Services Group Manager.**	**Yes - deferred from 13 January 2016.**
Property Purchase.	**To consider the purchase of property for investment purposes.**	**Simon Dix, Finance and Asset Management Group Manager.**	**Yes – deferred from 3 February 2016.**
Land at Canterbury Leys, Tewkesbury.	**To accept the surrender of leased land at Canterbury Leys, Tewkesbury.**	**Simon Dix, Finance and Asset Management Group Manager.**	**Yes – deferred from 3 February 2016.**
Transfer of Land at The Hangings, Tewkesbury.	**To approve the transfer of land at The Hangings, Tewkesbury to Tewkesbury Town Council.**	**Simon Dix, Finance and Asset Management Group Manager.**	**Yes – deferred from 3 February 2016.**
Review of Complaints – New Framework.	**To approve a new Complaints Framework.**	**Graeme Simpson, Corporate Services Group Manager.**	**No.**

Committee Date: June 2016			
Agenda Item	**Overview of Agenda Item**	**Lead Officer**	**Has agenda item previously been deferred? Details and date of deferment required**
Appointment of Portfolio Holders and Support Members (Annual).	To approve the Portfolio Holders and Support Members for the forthcoming Municipal Year.	Lin O'Brien, Democratic Services Group Manager.	No.

Committee Date: July 2016			
Agenda Item	**Overview of Agenda Item**	**Lead Officer**	**Has agenda item previously been deferred? Details and date of deferment required**
Performance Management Report – Quarter Four 2015/16 (Annual).	To receive and respond to the findings of the Overview and Scrutiny Committee's review of the quarter four performance management information.	Graeme Simpson, Corporate Services Group Manager.	No.
Financial Outturn Report incl capital financing and earmarked reserves (Annual).		Simon Dix, Finance and Asset Management Group Manager.	No.
Financial Inclusion Policy.		Richard Horton, Revenues and Benefits Group Manager.	No.

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	3 February 2016
Subject:	Waste Service Review and Vehicle Procurement
Report of:	Val Garside, Environmental and Housing Services Group Manager
Corporate Lead:	Rachel North, Deputy Chief Executive
Lead Member:	Councillor J R Mason
Number of Appendices:	Evaluation Scorecard

Executive Summary:

Tewkesbury Borough Council's current waste and comingled recycling collection service has been in place since 2010 and is now provided by Ubico (a local authority owned company).

The vehicles used to deliver this service are contract hired from C P Davidson. This agreement expires at the end of March 2017 after which a new fleet of refuse, recycling and street cleansing and grounds maintenance vehicles will be required.

A review has been carried out to assess the current waste and recycling service and compare it against alternative service models. The review considered the options from multiple perspectives and used an evaluation framework based around economy, environment and community to identify a sustainable preferred option. Compliance with Waste (England and Wales) Regulations 2011 (amended 2012) was also considered.

The purpose of this report is to inform Members of the outcome of the review and to recommend a revised model for the waste and recycling service, and a procurement process to provide the vehicles to deliver the service.

Recommendation:

THAT THE EXECUTIVE COMMITTEE:

a) **Endorse the findings of the Waste Service Review.**

b) **Adopt the comingled recycling service with separate food waste collections (Option 2) as the preferred option for implementation in 2017.**

c) **RECOMMEND TO COUNCIL that the allocation of £3.25 m from capital resources to fund the vehicle replacement programme be APPROVED.**

d) **Delegate authority to the Deputy Chief Executive, in consultation with the Lead Members for Clean and Green Environment and Finance and Asset Management, to procure the new and replacement vehicles.**

Reasons for Recommendation:

To enable the Council to procure new and replacement vehicles and continue to collect waste and recycling as required by the Environmental Protection Act 1990 and in accordance with Waste Regulations (England & Wales) Regulations 2011 (Amended 2012).

Resource Implications:

The issue of purchasing or leasing the new vehicle fleet has been a key issue within the project. Having evaluated the service need, prices were obtained for both a direct purchase and a continued lease arrangement. As detailed within the report, to purchase a new fleet would cost the Council a total of £3,099,000. Various options to fund this expenditure were evaluated including use of capital balances, internal borrowing and external borrowing from sources such as the Public Works Loan Board. Any type of borrowing, either external or internal, will attract a Minimum Revenue Provision (MRP) which requires monies to be set aside from revenue to repay the principal of the borrowings. The level of MRP is usually determined by the life of the asset being purchased and thus assets with a shorter useful life will attract higher charges. Given an expected useful life of around seven years for a vehicle fleet, the level of MRP, when taken with the interest charge from external providers or lost interest income from use of internal resources, has a significant impact on the revenue budget of the council and was therefore discounted. The use of capital receipts is considered the favored financing route for vehicle purchase as MRP is avoided and only lost investment income is incurred at a cost of around 0.8% - approximately £25,000 on current estimated purchase price.

The current practice of leasing a vehicle fleet was also considered. Soft market testing of potential leasing costs for a new fleet indicated annual revenue costs of around £860,000 which would represent an increase of over £250,000 per annum on current commitments. When comparing the overall cost of the purchase against lease options, it is important to remember to take into account additional maintenance requirements of running your own fleet and the need to provide a sinking fund for future vehicle replacement. Even after taking this into account, the option to purchase has a significant financial advantage for the council of approximately £180,000 against current estimates.

In order to pursue the preferred option of vehicle purchase, it will be necessary to refinance the current capital programme. This will mean utilizing internal borrowing to finance property investment as this will attract a lower MRP charge as a property will have a significantly longer useful life. This will enable enough capital resources to be available to meet the purchase needs. It will however leave a residual balance of circa £1m in capital receipts which can finance the Disabled Facilities Grant (DFG) programme for the next five years on current expenditure levels. Steps will need to be taken to reduce the DFG programme and / or switch it to revenue to ensure it remains affordable in the medium to long term. In addition, any future investment ambitions of the council will need to utilize external borrowing in order to finance them.

The overall position presented in the body of the report including the purchase of vehicles, an allowance for growth of the service and the market assessment of Material Recovery Facility contract prices, represents a significant increase in revenue expenditure. The current Medium Term Financial Strategy (MTFS) has anticipated these additional costs and, on current forecasts, there is actually a saving of approximately £250,000 against the MTFS spread over the next four years. This will help to reduce the overall deficit of £2.9m.

The recommendation is for the Council to approve the use of up to £3,250,000 of capital receipts to fund the purchase of the vehicle fleet. This allows a small contingency of 4.8% should prices obtained from frameworks be in excess of current estimates. Any monies not required will be returned to capital balances to support other investment projects.

Legal Implications:

The legal implications are discussed in the body of the report, but to summarise:

(a) When considering any alteration to the service the Council must be able to show that it has considered how such alteration complies with the requirements of the amended Waste (England and Wales) Regulations 2011.

(b) The procurement of the new and replacement vehicles must be in accordance with the Public Contracts Regulations 2015 and the Council's own Contract Procedure Rules. Procurement via a framework agreement of the type described in Paragraph 6.4 will satisfy these requirements, as long as the Public Contracts Regulations' provisions relating to frameworks are followed, together with any rules specific to the framework itself.

Risk Management Implications:

A risk register has been maintained throughout the Waste Service Review and the following key risks have been identified:

- Conditions in the commodity markets are unpredictable and therefore Material Recovery Facilities (MRF) are unwilling to offer fixed gate fees for the acceptance of comingled recyclable materials. The alternative of using a variable price formula based on commodity values and material quality shares the risk or benefit of variations in commodity values between the Council and MRF provider.
- TBC could be challenged by the EA or third parties regarding compliance with the Waste Regulations. This risk has been mitigated by ensuring that compliance with the Regulations has been considered throughout the review and through legal representation on the project team.

Performance Management Follow-up:

The Member Working Group (Councillors Mason, Waters, Williams and Vines) will receive regular updates on the project going forward. The current project group consisting of Officers from Tewkesbury Borough Council, Ubico and the Joint Waste Team will continue to meet and provides updates through Project Board Meetings, through the Ubico Monitoring meetings and through Overview and Scrutiny.

Environmental Implications:

The preferred option identified in this report minimises the amount of residual waste sent to landfill and maximises recycling (50.7%) in relation to the other options.

1.0 INTRODUCTION/BACKGROUND

1.1 In 2010 the Council introduced a waste and comingled recycling collection service to achieve 50% recycling and composting by 2014/15 and reach an annual landfill rate of 273kg per capita.

1.2 Since 2014 the waste and recycling collection service has been provided for Tewkesbury Borough Council by the Local Authority Company Ubico. Ubico also provides street cleansing and ground maintenance services in the Borough.

1.3 The frontline vehicles currently used by Ubico for the delivery of the waste and recycling service are 26 Tonne, compacting refuse collection vehicles (RCV) with a separate pod for food waste located behind the vehicle cab. All the vehicles used by Ubico in Tewkesbury Borough are contract hired through C P Davidson. The contract hire agreement expires at the end of March 2017.

1.4 The purpose of this report is therefore to consider the optimum waste and recycling service model and the vehicles required to support this model from 2017 to 2024.

1.5 A review of the Council's waste services was commissioned in September 2015 to consider whether the current service configuration is still fit for purpose and to compare it against other service models in terms of cost, performance and compliance. The review also considers the options for procuring the new vehicle fleet required to deliver the new service model to achieve best value.

1.6 Since the comingled recycling service was introduced in 2010 the Waste (England and Wales) Regulations 2012 (as Amended) have come into force. These regulations require that paper, plastics, metals and glass are collected separately for recycling in order to promote recovery and high quality recycling where:

(a) separate collection is necessary to facilitate or improve waste recovery both in terms of quantity and quality of material recovered; and

(b) it is technically, environmentally and economically practicable to do so.

The waste service review therefore also considers compliance with these Regulations.

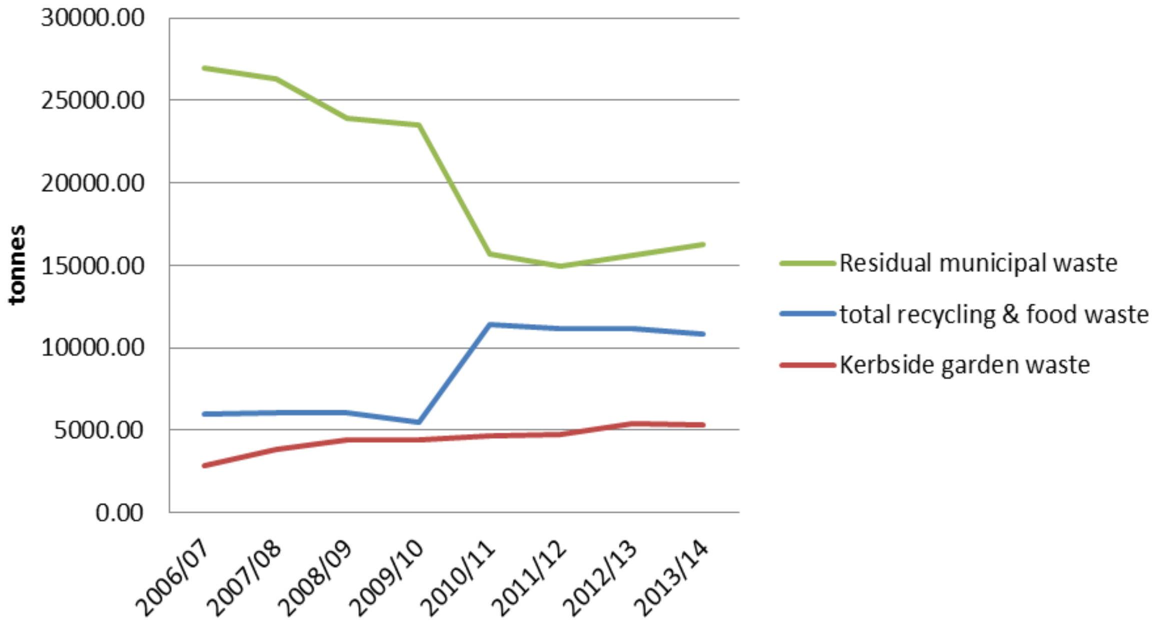
1.7 Tewkesbury Borough Council joined the Gloucestershire Joint Waste Committee and Team in December 2014 and is signed up to The Joint Municipal Waste Management Strategy (JMWMS) 2007-2020 along with other members of the Gloucestershire Waste Partnership (GWP).

2.0 CURRENT SERVICE PROVISION

2.1 The current waste collection and comingled recycling service includes:

- Weekly collection of food waste (stored in pods on the refuse and recycling vehicles.
- Fortnightly collection of refuse, alternating with;
- Fortnightly collection of comingled recycling (including, paper, card, mixed plastics, cartons, cans, tins and foil and glass).
- Fortnightly collection of garden waste (charged).

2.2 This service configuration was introduced in 2010 in order to reduce residual waste arisings and increase recycling. The impact of the service change in achieving these objectives is shown in the chart below. In 2014/15 the household recycling rate in Tewkesbury Borough was 50.7%.



2.3 Ubico Ltd. manages all environmental services for the Council. It also manages the vehicle lease hire and maintenance contract with C P Davidson. This contract expires in April 2017 with no option for extension written into the contract. Procurement of the replacement fleet will be carried out by Tewkesbury Borough Council and the Joint Waste Team (JWT), with specifications and vehicle types advised by Ubico.

2.4 Comingled recyclable waste is currently being taken to the Grundon Waste Management Materials Recovery Facility (MRF) at Bishop's Cleeve. The terms and conditions of this contractual arrangement were agreed at a point in the commodities market which allowed for a highly favourable outcome to be reached for the Council. It is clear that the global environment has shifted dramatically since this time and the Council will find it more difficult to replicate this position in any new contract.

2.5 There have been significant issues with contamination of input material to the MRF which has resulted in some load rejections. This is being addressed by the Council and the JWT officers and some headway is being made. It is important to try and address issues of quality with residents to reduce contamination levels. However a contract variation to account for the additional requirements to manage the contamination at the plant has been negotiated and agreement reached to continue using the Bishop's Cleeve MRF until April 2017.

3.0 WASTE (ENGLAND AND WALES) REGULATIONS 2011 (AMENDED 2012)

3.1 A Waste Regulations compliance review for Tewkesbury Borough Council has been carried out by the JWT. It demonstrates that comingling mixed dry recyclables under the current arrangement facilitates and improves recovery of all materials except glass and a TEEP (Technically, Environmentally and Economically Practicable) test is only required in order to determine the level of compliance of glass collections.

3.2 A subsequent, draft report by JWT on the compliance of the current method of collecting glass and alternatives indicated that separate glass collections may not be economically practicable. The draft report recommended that a review should be carried out of collection options that may improve recovery of glass and the economic viability of doing so, prior to the replacement of the existing vehicle fleet in April 2017.

3.3 The requirement to comply with the Regulations underpins the evaluation of options included in the Waste Service Review.

4.0 WASTE SERVICE REVIEW

4.1 The Waste Service Review was initiated in September 2015 and was comprised of two phases:

Phase 1:

- To evaluate the current service configuration and determine whether it is fit for purpose for the Borough and compare it against other alternative service models and methods. Carry out a financial and performance appraisal for each collection method and review the current service and alternatives in relation to compliance with the Waste Regulations and the waste hierarchy.
- To evaluate different methods of collection based on weekly collection of food waste, fortnightly collection of refuse, fortnightly collection of garden waste and a variety of recycling collection methods. The service models and vehicle configurations to be considered are shown in the table below:

<table>
<tr><th colspan="2">OPTION</th><th>1</th><th>2</th><th>3</th><th>4</th></tr>
<tr><td colspan="2">Service Configuration</td><td>“As is”
Comingled</td><td>Comingled, separate food collection</td><td>2 Stream comingled, separate food collection</td><td>Kerbside sort including food</td></tr>
<tr><td colspan="6">Recycling</td></tr>
<tr><td colspan="2">Paper</td><td rowspan="4">Comingled</td><td rowspan="4">Comingled</td><td rowspan="4">Comingled (70%)</td><td rowspan="4">Separately collected from the kerbside</td></tr>
<tr><td colspan="2">Cardboard</td></tr>
<tr><td colspan="2">Metal</td></tr>
<tr><td colspan="2">Plastic</td></tr>
<tr><td colspan="2">Food</td><td>POD Refuse/Recycling</td><td>Separate collection</td><td>Separate collection</td><td>KS Stillage</td></tr>
<tr><td colspan="2">Glass</td><td>Comingled with recycling</td><td>Comingled with recycling</td><td>Separate collection (30%)</td><td>KS Stillage</td></tr>
<tr><td colspan="2">Refuse</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Garden Waste</td><td>Charged</td><td>Charged</td><td>Charged</td><td>Charged</td></tr>
<tr><td colspan="6"></td></tr>
<tr><td rowspan="4">Front line vehicle configuration</td><td>Dry recycling</td><td>POD RCV</td><td>RCV</td><td>SB RCV</td><td rowspan="2">RRV</td></tr>
<tr><td>Food</td><td>POD</td><td>FWV</td><td>FWV</td></tr>
<tr><td>Refuse</td><td>POD RCV</td><td>RCV</td><td>RCV</td><td>RCV</td></tr>
<tr><td>Garden</td><td>RCV</td><td>RCV</td><td>RCV</td><td>RCV</td></tr>
</table>

(1) RCV = Refuse collection vehicle, SB RCV = Split back refuse collection vehicle, POD RCV = RCV with food pod, FWV = Dedicated food waste collection vehicle.

(2) Amber = fortnightly collection cycle. Green = weekly collection cycle

Phase 2:

To determine the most advantageous procurement option for the replacement vehicle fleet. The procurement will also include grounds maintenance and street cleansing equipment used by Ubico.

5.0 EVALUATION

5.1 The service delivery options were evaluated in two stages. In stage 1 the options were scored against three groups of criteria using known performance data, property numbers and productivity levels for 2015.

Financial Issues (42%) – including, costs of collection, sorting, capital, communications and client costs. Materials value and financial impacts on the Waste Disposal Authority were also considered.

Customer Issues (30%) – including, level of disruption, container provision, and communications requirement. Safety issues for both customer and the service provider were considered as part of this category.

Environmental issues (28%) – including, recycling performance, participation and capture (or diversion) of materials, carbon impact and vehicle movements. Regulatory compliance was considered in this category.

In stage 2, the resource levels identified for 2015 were extrapolated to 2017, to test the resilience of the options and account for property growth, possible changes to tipping points, MRF gate fees, materials values and diesel price etc.

5.2 The completed evaluation score card is provided at Appendix 1 and a summary of the outcome of the stage 1 evaluation process is shown in the table below:

OPTION	1	2	3	4
Service Configuration	**As is. Comingled**	**Comingled, separate food collection**	**2 Stream comingled, separate food collection**	**Weekly KS recycling including food**
Financial issues (42)	**30**	**27**	**23**	**11**
Customer issues(30)	**29**	**24**	**18**	**2**
Environment issues (28)	**25**	**23**	**21**	**14**
TOTAL	**84**	**74**	**62**	**27**

This indicates that at this stage of the evaluation there are advantages to remaining with a fully comingled recycling service (Options 1 and 2). The key factors influencing this outcome are:

- Smaller number of vehicles required and therefore low capital costs.
- Avoided costs of change.
- Low customer and client impact.
- Minimal requirement for communications.
- No new containers are required and no requirement to retrieve existing containers.
- Manual handling is minimised.
- No transferred costs to WDA.
- Maintains the existing high recycling rate.

5.3 The emergence of the comingled options is despite an apparently higher risk of challenge for non-compliance with the Waste Regulations. However, the performance analysis that was carried out as part of the evaluation indicates that there would be a reduction in the quantity of recycling collected if the Council returned to a kerbside box collections and this material would transfer to the residual waste stream. This is because of an anticipated reduction in householder participation and capture. The performance impacts have been modelled on an estimated 5% transfer from recycling collections to residual waste but it is possible that this estimate may be conservative. The estimated performance of each option is shown in the table below:

Annual Material Tonnages	**1**	**2**	**3**	**4**
	Tonnes	Tonnes	Tonnes	Tonnes
Residual waste	**15,000**	**15,000**	**15,460**	**16,089**
Commodities: Kerbside				
Food waste	2,366	2,366	2,366	2,366
Steel cans (mixed)	519	519	519	493
Glass (mixed)	2,537	2,537	2,181	2,410
Paper	2,554	2,554	2,554	2,426
Plastic (mixed)	649	649	649	617
Cardboard	866	866	866	823
Textiles	102	102	102	97
Garden waste	5,844	5,844	5,844	5,844
Total recycling	**15,437**	**15,437**	**15,081**	**15,076**
TOTAL Household waste	**30,437**	**30,437**	**30,541**	**31,165**
Recycling rate	**50.7%**	**50.7%**	**49.4%**	**48.4%**

5.4 This indicates, it is not necessary to collect glass, paper, plastics and metals separately to improve recycling and therefore there is no requirement to carry out the tests of technical, environmental and economic practicability. However, in order to be thorough, these tests have been applied and show that although it is technically possible to collect the key materials separately, financial barriers have been identified that make it not economically practicable to return to segregated collections. These include the additional costs of disposal that would be incurred by the Waste Disposal Authority (WDA) from the recycling diverted to landfill. From an environmental perspective, the performance analysis and carbon impact assessment indicate that segregated collections would reduce the Council's recycling rate and increase the carbon impact.

5.5 A summary of the financial evaluation for 2015/16 is provided in the table below:

UBICO Collection costs 2015/16	OPTION 1	OPTION 2	OPTION 3	OPTION 4
Refuse	£ 638,384	£ 559,284	£ 559,285	£ 559,285
Food	£ 81,438	£ 398,235	£ 398,235	£ -
Garden	£ 265,225	£ 265,226	£ 265,226	£ 265,226
Recycling	£ 660,266	£ 572,433	£ 739,580	£ 1,289,804
Collections Sub-Total	**£ 1,645,313**	**£ 1,795,178**	**£ 1,962,326**	**£ 2,114,315**
MRF gate fees	£ 375,804	£ 375,804	£ 150,080	£ -
Materials handling costs				£ 175,000
Other services and overheads	£ 1,781,443	£ 1,781,443	£ 1,781,443	£ 1,781,443
Annualised container cost (over 7 years)			£ 12,214	£ 24,429
Container delivery/retrieval (over 7 years)			£ 5,700	£ 19,543
Communications			£ 20,000	£ 40,000
Additional client support				£ 40,000
Material Value	£ -	£ -	-£ 38,055	-£ 324,693
Recycling Credits	-£ 395,245	-£ 395,245	-£ 395,245	-£ 375,501
Landfill avoidance credit	-£ 100,000	-£ 100,000	-£ 100,000	-£ 96,818
TBC Net Revenue impact	**£ 3,307,315**	**£ 3,457,180**	**£ 3,398,463**	**£ 3,397,718**
WDA Additional Revenue impacts			£ 58,625	£ 112,581
Total whole system cost	**£ 3,307,315**	**£ 3,457,180**	**£ 3,457,088**	**£ 3,510,299**
Capital items/0ne off costs				
Vehicles	£ 1,938,000	£ 1,960,000	£ 2,350,000	£ 2,625,000
Scrap value of bins				-£ 45,000
Total capital/one off costs	**£ 1,938,000**	**£ 1,960,000**	**£ 2,350,000**	**£ 2,580,000**
Note: All costs are indicative and for comparison purposes only				

5.6 The EA has described examples of indicators of different levels of compliance in their briefing paper “Separate Collection of Recyclables” (22.12.14). This suggests that comingled options can provide a medium to high level of compliance providing a robust evaluation process has been carried out. In these circumstances a low to medium level of intervention could be anticipated.

5.7 In Stage 2 of the evaluation the project team challenged the resilience of the options against the following issues:

5.7.1 Property growth: Tewkesbury Borough has grown by an average of 500 properties per year or 1.3% over the last five years. This level of growth is expected to continue. In addition, through the Joint Core Strategy (JCS) and exercising the duty to co-operate (DTC), the Council has undertaken to make a contribution to the housing supply needs of Gloucester City and Cheltenham. This is expected to add 215 properties per year from 2016 and 515 properties per year from 2020.

5.7.2 Vehicle capacity and speed of loading: Refuse collection vehicles with chassis mounted pods have approximately 12% less carrying capacity than standard RCVs. This equates to approximately 100 properties per day. In addition to this an additional crew member is required on each collection team. This is due to the location of the pod on the vehicle and the system for loading it being considerable slower than the bin lift system at the rear of the vehicle. It is also generally the case that the pod rarely fills at the same rate as the compacting compartment leading to differential loading and the carrying capacity of the vehicle not being fully utilised. These issues reduce the productivity and efficiency of the vehicles and limit their flexibility to accommodate high levels of property growth before further vehicles are required. Pod and split back RCVs are also more expensive to purchase and maintain.

5.7.3 Availability of hire vehicles: Pod and split back RCVs are specialised vehicles that rarely feature in the fleets of vehicle hire companies. This means that a higher level of spare vehicles needs to be provided to cover for breakdowns etc. This does not apply to standard RCVs that are freely available to hire.

5.8 A further financial evaluation was carried out based on the projected number of vehicles required for each option in 2017/18 after allowing for these issues. The results of this evaluation are shown in the table below:

UBICO Collection costs 2017/18	OPTION 1	OPTION 2	OPTION 3	OPTION 4
Refuse	£ 765,228	£ 618,549	£ 618,549	£ 618,549
Food	£ 80,006	£ 412,710	£ 412,710	£ -
Garden	£ 285,775	£ 285,775	£ 285,776	£ 285,776
Recycling	£ 838,950	£ 688,580	£ 870,709	£ 1,519,053
Collections Sub-Total	**£ 1,969,959**	**£ 2,005,614**	**£ 2,187,744**	**£ 2,423,378**
MRF gate fees	£ 375,804	£ 375,804	£ 150,080	£ -
Materials handling costs				£ 175,000
Other services and overheads	£ 1,781,443	£ 1,781,443	£ 1,781,443	£ 1,781,443
Annualised container cost (over 7 years)			£ 12,214	£ 24,429
Container delivery/retrieval (over 7 years)			£ 5,700	£ 19,543
Communications			£ 20,000	£ 40,000
Additional client support				£ 40,000
Material Value	£ -	£ -	-£ 38,055	-£ 324,693
Recycling Credits	-£ 395,245	-£ 395,245	-£ 395,245	-£ 375,501
Landfill avoidance credit	-£ 100,000	-£ 100,000	-£ 100,000	-£ 96,818
TBC Net Revenue impact	**£ 3,631,961**	**£ 3,667,616**	**£ 3,623,881**	**£ 3,706,781**
WDA Additional Revenue impacts			£ 58,625	£ 112,581
Total whole system cost	**£ 3,631,961**	**£ 3,667,616**	**£ 3,682,506**	**£ 3,819,362**
Capital items/0ne off costs				
Vehicles	£ 2,423,000	£ 2,359,000	£ 2,579,000	£ 3,098,000
Scrap value of bins				-£ 45,000
Total capital/one off costs	**£ 2,423,000**	**£ 2,359,000**	**£ 2,579,000**	**£ 3,053,000**
Note: All costs are indicative and for comparison purposes only				

5.9 Change of tipping points: The projected financial analysis for 2017/18 shown above does not include the potential impact of a change in tipping point for residual waste to Javelin Park in 2019. It has not been determined yet whether the Waste Disposal Authority will provide a facility to transfer residual waste or require it to be delivered directly to Javelin Park (although it is likely that this will be most financially advantageous option). If this proves to be the case the distance refuse vehicles will have to travel to unload will increase and the working time available for collections will reduce. To counter this it will be necessary to deploy additional vehicles and crews. The number of vehicles required will increase further if lower capacity pod RCVs are selected. It has not been possible to model the potential effects of this but a smaller number of less expensive vehicles will be required if standard RCVs are utilised.

It is also possible that Javelin Park may not have a facility to unload food waste. If this proves to be the case it will be essential to disconnect the collection of food waste from refuse/recycling by providing a separate service.

5.10 After considering these issues, the preferred option that has emerged from the evaluation process is Option 2. This option utilises standard refuse collection vehicles for both refuse and recycling. These vehicles have high capacity that would enable them to accommodate the accelerated level of property growth that is expected in the Borough over the next eight years and the impacts of the move to the Javelin Park facility in 2019.

5.11 Selection of this option avoids considerable costs of exchanging the popular and well-established wheeled bins for recycling already in use in the Borough. From the perspective of the customer, the service will be unchanged, apart from their food bin possibly being collected at a different time of the day to their green or blue bin, both in terms of provision and contractor, removing the need to consult residents prior to implementation.

5.12 The selection of Option 2 as the preferred option is dependent on the Council being able to secure an economically viable outlet for the comingled mix of dry recycling for the period 2017 – 2024. A soft market testing exercise has been carried out that has identified two MRFs within 35 miles of Tewkesbury that are capable of sorting the Council's comingled material and would be keen to bid for the work. These facilities are in addition to the Grundon MRF that is currently being used.

It will be necessary to undertake a legally compliant procurement process to secure a MRF contract in parallel with the procurement of the new fleet of collection vehicles.

6.0 PROCUREMENT

6.1 In order to deliver the preferred option it will be necessary to procure the following vehicles:

Vehicle type	Owner	Service	No.	Unit cost (£)	Gross cost
26T RCV		Refuse/Recycling/Spares	11	151,000	£1,661,000
23T RCV NA		Refuse/Recycling/Garden	2	142,000	£284,000
23T RCV		Garden/Spares	1	142,000	£142,000
7.5 FWV		Food waste	4	68,000	£272,000
Total			**18**		**£2,359,000**

6.2 In addition, the following vehicles need to be procured to replace those that have to be returned to CP Davidson at the end of the contract hire agreement in April 2017.

Vehicle type	Owner	Service	No.	Unit cost (£)	Gross cost
26T RCV	Ubico	Trade Refuse	1	£151,000	£151,000
15T Mech sweeper	CPD	Streets	1	£140,000	£140,000
7.5T Mech sweeper	CPD	Streets	1	£75,000	£75,000
7.5T Cage tipper	CPD	Waste and recycling	2	£68,000	£136,000
3.5T Cage tipper	CPD	Streets/Parks (1)	5	£32,000	£160,000
Transit van	CPD	Parks	2	£25,000	£50,000
Land Rover	CPD	Grounds maintenance	1	£28,000	£28,000
Total			**11**		**£740,000**

6.3 Two no. 2011 plate, triple mounted mowers, owned by Tewkesbury Borough Council and used for grounds maintenance are not scheduled to be replaced as part of this procurement. These items will require replacement in 2018.

6.4 The estimated value of the new and replacement vehicles is £3,099,000. This is in excess of the threshold for a full OJEU compliant procurement process. An alternative to this is to purchase through a public sector procurement framework.

A comparison between these two routes has been undertaken that suggests that there is no advantage in undertaking a full procurement process. The reasons for this include:

- Direct procurement is unlikely to yield better prices than a framework due to the relatively small numbers of each vehicle type and the broad range of equipment required.
- No one single supplier would be able to manufacture or provide the range of equipment required. This would entail the management of a complex multi supplier procurement.
- The 2015 Procurement Regulations require a highly prescriptive approach to procurement with a risk of challenge if due process is not followed. Tewkesbury Borough Council may not have sufficient capacity or specific expertise in-house to manage this procurement route.

6.5 A range of possible funding routes are available ranging from capital purchase using Tewkesbury Borough Council funds, borrowing capital from the Public Works Loans Board (PWLB), and entering into a contract hire agreement. Further work is required to determine the best value option. This work should include enquiries with the incumbent vehicle provider CP Davidson with regard to extending the contract hire agreement for the existing vehicles or the provision of second hand vehicles until Javelin Park is available.

6.6 It is therefore recommended that delegated authority be given to the Deputy Chief Executive, in consultation with the Lead Members for Clean and Green Environment and Finance and Asset Management, to determine the optimum finance route and procure the new and replacement vehicles.

6.7 It will also be necessary to carry out a procurement exercise to secure a MRF to sort the Council's comingled material from April 2017. This is likely to be considerably less complicated than the vehicle procurement and in the absence of any suitable framework agreements will have to be managed internally.

7.0 OTHER OPTIONS CONSIDERED

7.1 None.

8.0 CONSULTATION

8.1 The Joint Waste Committee (JWC) considered a version of this report at its meeting on 15 December 2015.

The JWC expressed concern that an opportunity appeared to have been lost to align the service model in Tewkesbury with the adjoining partner authorities but there was general appreciation of the financial pressures faced by Tewkesbury – exacerbated by the probability of higher MRF gate fees - would have a large part in the decision.

It was noted that there is some resource sharing already between Tewkesbury Borough and Cheltenham Borough Councils and there still could be opportunities to further align comparative service elements (e.g. refuse collection, garden waste, food waste) in the future if a common vehicle specification was adopted.

The recommendation to collect food separately which allows standard (non-podded) RCVs was welcomed as these could be used interchangeably by Ubico in other areas and potentially for cross-boundary rounds where other partners adopt similar configurations.

9.0 RELEVANT COUNCIL POLICIES/STRATEGIES

9.1 Joint Municipal Waste Management Strategy Action Plan 2007 – 2020.

10.0 RELEVANT GOVERNMENT POLICIES

10.1 The last major policy document to be issued on waste under the coalition government was the Review of Waste Policy in England in 2011 which set out 13 commitments to move towards a 'zero waste' economy. It prioritised efforts to manage waste in line with the waste hierarchy and reduce the carbon impact of waste. Initiatives to boost England's stagnating household waste recycling rate in order to meet the Waste Framework Directive target of 50% by 2020 are likely to be high on the Government's agenda but delivered through localism and a lighter regulatory touch rather than specific policies and targets.

11.0 RESOURCE IMPLICATIONS (Human/Property)

11.1 As advised in report.

12.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

12.1 The framework used to evaluate the options was based on the "three pillars" of sustainability: Economy, Environment and Community. The preferred option that emerged from the evaluation therefore represents the most sustainable solution.

13.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

13.1 **Value for Money**: This report recommends delegating authority to undertake the procurement of the new and replacement vehicles to the Deputy Chief Executive in consultation with senior Councillors. Further work is required to complete a detailed analysis of funding routes, and procurement options but this will ensure that the Council achieves best value.

Equalities: An initial Equalities Impact Assessment (EIA) has been carried out to assess the impact of the proposed changes to the service on the various equalities strands. This indicates that the changes will not have a differential impact on any segment of the community. Assisted services will continue to be provided to the elderly and infirm on application and additional waste capacity will be provided for larger families and those with particular requirements. Communication materials relating to the services can be translated in to different languages and braille if requested. In these circumstances it is not considered necessary to carry out a full EIA.

Health and safety: Consideration of the risks to the health and safety of members of the public and service operatives were a key part of the evaluation of options. The preferred option utilises standard refuse vehicles for the collection of both dry recycling and residual waste. These have low access cabs and mechanical bin lifts to reduce the risk of slips, trips and falls, and manual handling respectively. Vehicles will be fitted with 360 degree cameras as well as reversing cameras and alarms.

14.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

14.1 In April 2014 the Council entered into a new three year contract with Grundon Waste Management Ltd to process, sort, and sell comingled dry recycling material. The current contract will cease in 2017, therefore procurement of a new MRF facility will need to be undertaken.

Background Papers: Tewkesbury Borough Council, Waste Regulations Compliance Review, April.

Gloucester Joint Waste Committee, Waste Transfer Options – Establishing the potential impact on WCA services of delivering residual waste to Javelin Park.

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Appendices: 1. Evaluation Scorecard.

APPENDIX 1: Evaluation scorecard

OPTION		**1**	**2**	**3**	**4**
Service Configuration		**As is.**	**Comingled, separate food collection**	**Semi-Comingled, separate food collection**	**Weekly KS recycling including food**
Recycling					
Paper		Comingled	Comingled	Comingled (70%)	Separately collected from the kerbside
Cardboard					
Metal					
Plastic					
Food		POD Refuse/Recycling	Separate collection	Separate collection	KS Stillage
Glass		Comingled with recycling	Comingled with recycling	Separate collection (30%)	KS Stillage
Refuse					
Garden Waste		Charged	Charged	Charged	Charged
Front line vehicle configuration	Dry recycling	POD RCV	RCV	SB RCV	RRV
	Food	POD	FWV	FWV	
	Refuse	POD RCV	RCV	RCV	RCV
	Garden	RCV	RCV	RCV	RCV
Collection costs (6)		6	4	2	0
Sorting/handling costs (6)		0	0	6	5
Materials value (6)		0	0	1	6
Capital and one-off costs (6)		6	6	3	0
WDA costs (6)		6	6	3	0
Comms/client costs (6)		6	6	4	0
Depot space (3)		3	2	2	0
Commercial capability (3)		3	3	2	0
Financial sub-total (42)		**30**	**27**	**23**	**11**
Level of disruption (6)		6	4	4	0
Container impact (6)		6	6	3	0
H & S (6)		5	5	3	2
Congestion (6)		6	4	4	0
Communications (6)		6	5	4	0
Customer issues sub-total (30)		**29**	**24**	**18**	**2**
Performance (6)		6	6	5	4
Participation/Capture (6)		6	6	5	4
Regulatory compliance (6)		3	3	4	6
Carbon impact (6)		6	5	5	0
Vehicle movements (No. x freq) (4)		4	3	2	0
Environment sub-total (28)		**25**	**23**	**21**	**14**
TOTAL		**84**	**74**	**62**	**27**

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive
Date of Meeting:	3 February 2016
Subject:	Gloucester, Cheltenham and Tewkesbury Joint Core Strategy Additional Budget Request
Report of:	Julie Wood, Development Services Group Manager
Corporate Lead:	Mike Dawson, Chief Executive
Lead Member:	Councillor D M M Davies
Number of Appendices:	None

Executive Summary:

Due to the extended period of the examination of the Joint Core Strategy (JCS), and the extensive additional evidence and legal advice to support the process, the budget implications for each of the JCS authorities has been revised for the period 2016/17.

The JCS authorities have, since 2008, provided an annual contribution per authority of £60,000. This report sets out the detail of the request for a total contribution of £195,000 (i.e. £135,000 per Council in addition to the £60,000).

Recommendation:

That the Executive Committee approves the use of £135,000 of reserves within 2016/17 to further support the Joint Core Strategy.

Reasons for Recommendation:

To enable completion of the JCS.

Resource Implications:

The extra £135,000 requested can be treated as a one-off and therefore reserves can be utilised to cover this cost in 2016/17. Provision has already been made within the Council's budget proposals for this to happen. This will of course consume resources that were originally intended for other purposes but it is anticipated that a significant surplus will be made within the current year budget to replenish those reserves utilised for this purpose. The £60,000 base budget to support the JCS remains part of the ongoing budget.

Should further monies be required for the JCS during the course of the year, a further approach to Executive Committee will be required to either vire monies between reserves or to utilise the uncommitted New Homes Bonus as proposed within the budget papers.

Legal Implications: Having a local plan in place is a statutory requirement.
Risk Management Implications: If the Council does not continue to deliver the required evidence work and obtain legal advice then adoption could be delayed with the risk of inappropriate development.
Performance Management Follow-up: Performance is managed through the JCS reporting structure and through the Council's own performance and project management processes.
Environmental Implications: The JCS will protect the Borough and its communities from inappropriate development.

1.0 INTRODUCTION/BACKGROUND

1.1 As Members will be aware, the Borough Council has been working in collaboration with Cheltenham Borough Council and Gloucester City Council since 2008 on the preparation of the JCS. This collaboration is supported by an annual commitment of £60,000 per authority. The JCS budget over 2015/16 and 2016/17 is very much focused on delivering the Examination in Public (EIP). Costs arising in support of this include Inspector and examination support costs, legal support and additional technical work arising from the debate at the EIP as directed by the Inspector.

2.0 REASONS FOR THE RECOMMENDATION

2.1 The JCS examination process is taking significantly longer than expected. The JCS was submitted to the Secretary of State in November 2014 with the original expectation that the examination would be completed in the 2015/2016 financial year, with the adoption process continuing into 2016/17. The annual commitment of £60,000 was considered to be sufficient to cover this cost.

2.2 However, with the substantial increase in work requested by the Inspector, including updates to objectively assessed need, housing market assessments, economy and viability, and with an increase in the number of sitting days and the delays incurred by the transport modelling, this has meant increased costs.

2.3 The key areas will be the stage three examination covering flooding, infrastructure, transport modelling, monitoring, viability and more general policies; completion of the main modifications proposed, subsequent public consultation and a further examination review by the inspector before adoption. There will also be costs associated with the Community Infrastructure Levy.

2.4 A budget review was tabled at the Cross Boundary Programme Board on 22 October 2015 and this totalled £435,000 across the three authorities (i.e. £145,000 per Council). It was also noted that it would be prudent to further increase the budget, given the likelihood of further costs including expert legal advice and support. Therefore a further increase of £150,000 was suggested (i.e. £50,000 per Council). Therefore, the total budget request for 2016/17 is £195,000 per Council (£135,000 per Council in addition to the annual budget allocation of £60,000).

2.5 As Members will be aware, the Inspector has recently produced a Preliminary Findings Report on Green Belt Release, Spatial Strategy and Strategic Allocations. This will inevitably result in additional work requested by the Inspector. It is hoped that the contingency of £50,000 per Council will cover any additional costs, however, these costs are currently unknown.

3.0 OTHER OPTIONS CONSIDERED

3.1 None.

4.0 CONSULTATION

4.1 None.

5.0 RELEVANT COUNCIL POLICIES/STRATEGIES

5.1 Council Plan 2012–2016.

6.0 RELEVANT GOVERNMENT POLICIES

6.1 National Planning Policy Framework and National Planning Policy Guidance.

7.0 RESOURCE IMPLICATIONS (Human/Property)

7.1 The Examination in Public involves a significant amount of officer time.

8.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

8.1 The purpose of the planning system is to contribute towards sustainable development principles. Planning decisions are required to be made in accordance with an adopted development plan. The plan-led approach to development will help to ensure that new development is supported by the necessary facilities and infrastructure to make it sustainable in the long term.

9.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

9.1 None.

10.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

10.1 None.

Background Papers: None.

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Appendices: None.

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	3 February 2016
Subject:	Budget 2016–2017
Report of:	Simon Dix, Finance and Asset Management Group Manager
Corporate Lead:	Rachel North, Deputy Chief Executive
Lead Member:	Councillor D J Waters
Number of Appendices:	Four

Executive Summary:

The proposed net budget totals £9.66m and, after deducting Government support and other financing streams, the resultant council tax requirement is £3.320m giving a Band D council tax figure of £104.36.

Recommendation:

The Committee is asked to RECOMMEND TO COUNCIL that:

- **i. a net budget of £9,663,342 be APPROVED;**
- **ii. a Band D Council Tax of £104.36, an increase of £5.00 per annum, be APPROVED;**
- **iii. the use of New Homes Bonus, as proposed in Paragraph 3.5 of the report, be APPROVED;**
- **iv. the capital programme, as proposed in Appendix A to the report, be APPROVED;**
- **v. the capital prudential indicators, as proposed in Appendix B to the report, be APPROVED;**
- **vi. the annual Minimum Revenue Provision (MRP) statement, as contained in Appendix B to the report, be APPROVED;**
- **vii. the mid-year 2015-16 Treasury Management update, as contained in Appendix C to the report, be APPROVED;**
- **viii. the 2016-17 Treasury Management Strategy, as proposed in Appendix D to the report, be APPROVED; and**
- **ix. delegated authority be given to the Finance and Asset Management Group Manager, in consultation with the Lead Member for Finance and Asset Management, to apply to the Government for a four year Settlement if he believes it is in the best interest of the Council.**

Reasons for Recommendation:

The Council must set a balanced budget and a level of Council Tax necessary to meet its revenue needs, but it must be set at a level affordable to the taxpayer and within the parameters set by the Government.

Resource Implications: Set out in this report.
Legal Implications: Section 32 of the Local Government Finance Act 1992 as amended places a duty on the Council, as Billing Authority, to calculate before 11 March 2016 its budget requirement for 2016/17. Under Section 25 of the Local Government Act 2003, the Section 151 Officer must report on the robustness of the estimates for the purposes of making the appropriate calculations and of the adequacy of the Council's proposed financial reserves.
Risk Management Implications: The risks are set out more fully in the report but, in summary, centre around the continuing pressure on local government funding as Revenue Support Grant is withdrawn and the New Homes Bonus scheme is amended. It is under these circumstances that holding balances at a higher level for the time being is an appropriate course of action to protect the Council from the financial uncertainty ahead.
Performance Management Follow-up: Performance reports are presented to Members on a quarterly basis and include details of the revenue and capital budgets performance and updates on the use of reserves.
Environmental Implications: None directly from this report.

1.0 INTRODUCTION/BACKGROUND

1.1 The Council considered its financial position as shown in the Medium Term Financial Strategy (MTFS) at its meeting on 8 December 2015.

1.2 The MTFS outlines the budget pressures facing this Council currently, and in future years, and depicts the gap between the estimated net budget of the Council and the estimated funding available in order to finance that net expenditure. The deficit over the five years of the MTFS is estimated to be in the order of £2.9million with a gap suggested in 2016/17 of approximately £1,090,000.

1.3 Since the production of the MTFS the conclusions of the Government's Comprehensive Spending Review (CSR) have been announced. In summary, the headline announcements include:

- a 46% reduction in core government support over the next 4 years (56% in real terms);
- greater support to upper tier authorities for the provision of social care partly funded from an extra 2% levy on Council Tax and partly funded from redistribution of existing funding; and
- a consultation on the future of the New Homes Bonus scheme with the intention of reducing the financial envelope by at least £800m equating to 2/3 of current spend.

1.4 The Council has also received the provisional Local Government Settlement for 2016/17 together with the promised New Homes Bonus consultation.

1.5 This report now brings together the general information on the financial climate with the detailed figures associated with the 2016/17 budget and the work undertaken by the Transform Working Group and makes a proposal for a balanced budget and resultant Council Tax.

1.6 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (nominated Section 151 Officer) to make a statement to the Council on the robustness of the estimates and adequacy of financial reserves. This statement is set out in Section 11 of this report. The Council is under a statutory obligation to have regard to this when making its decision on the proposed budget.

1.7 Whilst the budget is compiled using the best estimates available, the lack of clarity and certainty in Local Government Finance at this time make setting the 2016/17 budget difficult and forecasts for future years require a greater degree of sensitivity, impacting on the robustness of these latter year estimates. Whilst uncertainty over future direction is not new to Local Government, particularly in recent times, the unknown impact of the New Homes Bonus consultation, and the potential benefit or loss from retained Business Rates, is such that significant risk is added to planning the operations of the Council over the medium term. The one known is that core government support grant will continue to be significantly reduced over the next four years.

1.8 In setting the budget for 2016/17, the Council has continued to provide the same level of service as in previous years and in many areas, provide an enhanced service. Much of the deficit which has faced the Council for the new financial year has been met through increased income and financing streams, a greater degree of sharing and improved service efficiency and, of course, increased Council Tax. Future budget setting may not find these areas as plentiful and Members and Officers will be faced with tough decisions on the operation of the Council, including reducing or stopping some services, and taking greater risk in its commercial activities.

2.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17

2.1 The Local Government finance settlement for 2016/17 is the fourth under the new funding arrangements introduced in the Local Government Finance Act 2012. 2013/14 saw the implementation of a new Business Rates Retention Scheme, a Gloucestershire Business Rates Pool and a Localised Council Tax Support Scheme whilst core government support is now in the form of Revenue Support Grant (RSG) and a Business Rate baseline.

2.2 The provisional Local Government Finance Settlement for 2016/17 was announced on 17 December 2015. The settlement is effectively for one year, although indicative figures have been provided for a four year period. The settlement is subject to consultation which ended on 15 January 2016, with a final settlement expected at the end of January.

2.3 The Council's MTFS included the widely held assumption that RSG would all but disappear from core government support over the next four years and the provisional settlement confirms this position. Table 1 highlights the indicative level of support for the next four years:

Table 1

	15/16 (£'000)	16/17 (£'000)	17/18 (£'000)	18/19 (£'000)	19/20 (£'000)	Total (£'000)
Cash Levels						
RSG	£1,352	£887	£515	£283	£23	-
Baseline	£1,676	£1,690	£1,723	£1,774	£1,830	-
Total	**£3,028**	**£2,577**	**£2,238**	**£2,056**	**£1,853**	**-**
Change in funding (£)						
RSG	-	-£465	-£372	-£233	-£260	-£1,329
Baseline	-	£14	£33	£51	£57	£155
Total	**-**	**-£451**	**-£339**	**-£182**	**-£203**	**-£1,175**
Change in funding (%)						
RSG	-	-34.37%	-41.94%	-45.15%	-91.94%	-98.31%
Baseline	-	0.83%	1.97%	2.95%	3.20%	9.23%
Total	**-**	**-14.89%**	**-13.15%**	**-8.12%**	**-9.88%**	**-38.80%**

2.4 As can be seen from Table 1, significant reductions to core government support continue over the next four years and are currently estimated to total a reduction of £1.175m from current funding levels. This is in line with the projections contained within the MTFS but the profile of reductions is more gradual meaning that this Council is losing less support in the next couple of years compared with estimates. For 2016/17, the reduction is £451,000, or 14.89%, which is approximately £110,000 better than had been anticipated.

2.5 As part of the provisional settlement, the government has made an offer to local authorities to apply for a four year fixed settlement. A four year deal in theory would give the Council certainty as it prepares its Medium Term Financial Strategy and is something that local government has consistently asked for. However, there is a lack of detail surrounding the offer, particularly in regard to what a Council must do to receive the multi-year settlement. It appears that an Efficiency Plan needs to be submitted which would include an intended use of reserves to support the budget. The government has also confirmed that, although the four year deal would be agreed in principle, there are circumstances, e.g. economic shock, where they may not be able to honour the deal.

2.6 For Tewkesbury, the benefit of any deal is unclear. The Council already knows that it will receive only £887,000 of Revenue Support Grant in 16/17 and this will be phased out over Parliament. The business rate baseline is again, in theory, fixed until 2020, only rising by inflation. Of more concern to this Council is the future of New Homes Bonus and this currently appears to be outside of this particular offer. More detail on the offer, and the requirements, are expected to be released in the coming weeks and it is therefore suggested that delegated authority is given to the Finance and Asset Management Group Manager, in consultation with the Lead Member, to consider the offer and, if deemed beneficial for the Council, to apply to Government.

3.0 NEW HOMES BONUS

3.1 The New Homes Bonus (NHB) allocation for 2016/17 is based on housing growth and bringing empty properties back into use between October 2014 and October 2015. The allocation for 2016/17 is £659,431 and gives the Council a total allocation of NHB of

£3,401,162.

3.2 2016/17 is the sixth year of the scheme and so, under the current scheme design, is the final year of growth before it becomes a rolling six year allocation. However, as widely expected, the government is considering the future of the scheme and has issued a consultation paper on proposed changes. The government has stated its intention to 'sharpen the incentive' and release at least £800m for use within social care. The proposals are summarised below:

- Reduce the number of years for which payments are made. The proposal is a reduction from six to four years but asks if it should be reduced further to three or two years.
- Withhold NHB if no Local Plan in place.
- Lose a percentage of NHB if Local Plan is not up-to-date.
- Reduce payments for homes allowed on appeal – either 50% or 100%.
- Only make payment for housing growth above a baseline to allow for growth that would happen regardless of an incentive scheme being in place for local authorities.

3.3 The government's preferred option appears to be a transitional approach based on reducing the number of years from six to four and a combination of 'sharpening the incentive' as described above. Although the government will not release a response document to the consultation until the summer, the Council's forecasts of future NHB receipts have been reworked based on the preferred approach and are shown in Table 2:

Table 2 – Revised Projection of NHB

	Year 5 2015/16 (£'000)	**Year 6 2016/17 (£'000)**	**Year 7 2017/18 (£'000)**	**Year 8 2018/19 (£'000)**	**Year 9 2019/20 (£'000)**	**Year 10 2020/21 (£'000)**
Year 1	£527	£527	£0	£0	£0	£0
Year 2	£411	£411	£0	£0	£0	£0
Year 3	£295	£295	£295	£0	£0	£0
Year 4	£638	£638	£638	£0	£0	£0
Year 5	£871	£871	£871	£871	£0	£0
Year 6	£0	£659	£659	£659	£659	£0
Year 7	£0	£0	£344	£344	£344	£344
Year 8	£0	£0	£0	£344	£344	£344
Year 9	£0	£0	£0	£0	£344	£344
Year 10	£0	£0	£0	£0	£0	£344
Total NHB	**£2,742**	**£3,401**	**£2,807**	**£2,218**	**£1,691**	**£1,376**
Variance (£)	**£0**	**£0**	**-£666**	**-£1,444**	**-£2,277**	**-£2,554**
Variance (%)	**0.00%**	**0.00%**	**-19.16%**	**-39.42%**	**-57.37%**	**-64.99%**

3.4 As can be seen from the table, if the government pursues its preferred option for NHB, there will be a significant impact on the Council in the medium term with ongoing receipts being significantly less than current levels. It would be expected that there would be some damping mechanism in a new scheme to protect individual authorities from extreme reductions in funding and there will be a form of local damping as levels of house building are forecast to increase by around 50% per annum in the Borough in the coming years. This may allow the Council to retain a further £100,000-£200,000 of NHB per annum.

3.5 The consultation document did confirm that 2016/17 NHB would not be affected by the consultation and therefore the proposed use of NHB in 2016/17 is as follows:

- Support to Base Budget - £2,210,755.
- Base Budget Contingency - £150,000.
- Business Rates Reserve - £133,000.
- Asset (IT & Property) Management - £80,000.
- Community Grants - £180,000.
- Business Transformation - £47,407.
- Uncommitted - £600,000.

3.6 The suggested use of NHB includes utilising £2,210,755 to support the base budget. This is an increase of £426,630 over the current utilisation and maintains the total amount of NHB used to directly support the base budget to the 65% ceiling that was agreed in the Medium Term Financial Plan. It should be noted that many Councils utilise 100% of their NHB allocation to support their base budget. The use of only 65% of NHB to support the 2016/17 budget leaves 35% or £1,190,407 available to the Council to commit to other priorities and projects.

3.7 A base budget contingency has proved to be invaluable in previous years with its use as a result of the impact of retained business rates and the rising costs associated with the Joint Core Strategy (JCS). The base budget for 2016/17 is also 'tighter' than in previous years with income levels in particular estimated at their maximum likely levels. It is therefore imperative to have a contingency available to meet any shortfalls in income or economic shock. The Council can be protected from further shock from losses on the Retained Business Rate Scheme with the deployment of a further £133,000 to top up the current reserve to the full level required. The Council has agreed to fund community grants and a grants officer initially on a two year basis from NHB and therefore a second year of funding worth £180,000 has been included. A combined sum of £80,000 has been included to cover some of the requirements of the emerging property and IT asset management plans and a further £47,407 made available for a continuing programme of service reviews.

3.8 The balance of £600,000 has been left uncommitted at this stage with the anticipation that future reports to Executive Committee will request the draw-down of funds as and when they are required. This will give the Council flexibility in responding to the emerging needs of projects such as regeneration, public sector housing, the Public Service Centre and vehicle purchase. It also sets aside a substantial sum to assist with any structural redesign of the Council and to support a financial transition if the government's redesigned NHB scheme does have the impact projected.

4.0 BUSINESS RATES RETENTION

4.1 From April 2013, the Gloucestershire Councils have 'pooled' their business rates. The main benefit of pooling is that more of any growth generated in Gloucestershire can be retained in Gloucestershire than if the Councils were operating independently. The downside risk is the level of outstanding business rate appeals that could be backdated and being in a pool takes away the safety net.

4.2 Members will be aware of the Pool position at the end of 2014/15 following the backdated appeal from the Virgin Media. Given the ongoing threat that there will be further reductions in RV from this site, the Pool will be dissolved on 31 March 2016 and reformed in April 2016 excluding Tewkesbury Borough Council. Confirmation has been received from the Department for Communities and Local Government (DCLG) that the new pool can be formed. Tewkesbury will continue to operate independently within the retained business rates scheme and should there be future safety net requirements arising from either Virgin Media or other business entities these will be met by the government rather than Gloucestershire authorities. Should the ongoing risk be reduced, Tewkesbury will look to re-join the pool at the earliest opportunity.

4.3 The Spending Review included an announcement that the retention of 100% of Business Rates will be rolled out to all authorities by the end of the Parliament. However, this will come with additional responsibilities, the details of which are not yet known. As more detail on the proposed scheme becomes available, this will be shared with members and forecasts updated.

4.4 With regards to the forthcoming year, the projections for growth within Tewkesbury remain relatively flat. The growth that is known will hopefully replace the losses incurred through ongoing appeals and therefore the retained income target has been set at the same level as the current year with a small allowance made for the inflationary growth in the charge to businesses. Given the ongoing threat of successful appeals a reserve of £383,000 has been established as detailed at Paragraph 3.7.

5.0 COUNCIL TAX SETTING

5.1 The referendum principle issued by the government for Council Tax setting, set a national threshold of 2% for lower tier authorities with the exception of those authorities whose Council Tax is in the lowest quartile and who are therefore deemed to have low Council Tax. A threshold of £5 or 2 %, whichever is higher, has been set for those authorities of which Tewkesbury is one.

5.2 In giving greater flexibility to these authorities, Secretary of State Greg Clark, commented:

"Some district councils – those with low Council Tax bases or which serve the most rural areas – face particular pressures. So while this settlement maintains the core referendum threshold at 2%, the threshold for the lowest cost district councils will be £5 a year, so they aren't punished for being economical while those who have spent more in the past are allowed to spend more now."

5.3 Tewkesbury has frozen its share of the Council Tax for the last five years to support its taxpayers during tough economic times. In return, the government has given the Council a grant equivalent to a 1% rise in Council Tax. Unfortunately a large proportion of this is funded from RSG which, as previously indicated, is being removed over the course of Parliament. The freeze in tax has also maintained the Council's position as the fifth lowest lower tier authority Council Tax in England. At £99.36, the Council is approximately £45 lower than the lower quartile threshold and some £68 short of the average District Council for 2015/16.

5.4 In proposing a £5 per annum rise in Council Tax for Band D taxpayers, the Council will retain its position in the lowest charging authorities, thereby honouring its commitment to maintain a low Council Tax, but will also generate an additional income of around £96,000 over an increase of 2%. This increase can limit the need to use reserves to cover ongoing service cost in 2016/17 and also put the Council in a better position to tackle the future deficits it faces and the uncertainty over the future of the NHB scheme.

5.5 The impact of this proposal on the Borough taxpayers is illustrated in Table 3.

Table 3

	No. of properties	Percent of total	Annual Council Tax 15/16	Annual Council Tax 16/17	Annual Increase
Band A	6,249	16.05%	£66.24	£69.57	£3.33
Band B	6,296	16.17%	£77.28	£81.17	£3.89
Band C	10,809	27.76%	£88.32	£92.76	£4.44
Band D	5,691	14.61%	£99.36	£104.36	£5.00
Band E	4,848	12.45%	£121.44	£127.55	£6.11
Band F	3,039	7.80%	£143.52	£150.74	£7.22
Band G	1,821	4.68%	£165.60	£173.93	£8.33
Band H	188	0.48%	£198.72	£208.72	£10.00

5.6 The council's recent record on Council Tax is shown below for information.

	Budget £000s	Increase %	Council Tax £	Increase Pa £	Increase %
2009/10	8,293	3.2	95.58	4.56	5.0
2010/11	8,499	2.5	99.36	3.78	3.9
2011/12	7,426	-12.6	99.36	0.00	0.0
2012/13	7,050	5.0	99.36	0.00	0.0
2013/14	8,525	20.9	99.36	0.00	0.0
2014/15	8,746	2.6	99.36	0.00	0.0
2015/16	9,210	5.3	99.36	0.00	0.0
2016/17	9,663	4.9	104.36	5.00	5.0

6.0 BUDGET PROPOSALS

6.1 The base estimates for the Council in 2016/17 have been compiled and are as follows:

Budget Heading	£
Employees	8,174,956
Premises	533,016
Transport	146,742
Supplies & Services	1,969,379

Third Party Payments	4,619,126
Transfer Payments	18,989,000
Income	-25,251,424
Movement in reserves	482,547
Net Budget Requirement 2016/17	**9,663,342**

6.2 The estimates for 2016/17 include the following headlines:

- £80,000 increase in direct staffing costs as a result of the assumption of a 1% pay award to be agreed for the period from April 2016.
- £196,000 increase in pension deficit contributions which is the third and final step of the agreed three year settlement.
- £150,000 increase in national insurance contributions as a result of removing the rebate from contracted out schemes.
- £63,000 reduction in Housing Benefit Administration Subsidy grant from the government.
- £68,000 reduction in investment income as a result of reduced investment balances.
- £140,000 increase in the cost of the planning department manpower to meet increased demand.
- £303,000 increase in planning income.
- £70,000 increase in garden waste income.
- £10,000 of new procurement targets.

6.3 In addition, the base estimates include the savings generated by a number of business transformation activities over the last 12-18 months. Previous Council decisions that have a new impact on the base budget for 2016/17 have been incorporated and provide vital income streams and reduced expenditure to help meet the budget deficit. These include the opening of the new leisure centre, which will attract a contractor sum from the appointed operator as well as the elimination of the deficit on the current facility, year two of the business case for services joining Ubico Ltd, which projects efficiency savings of £90,000, the expansion of One Legal to incorporate Gloucester City and the restructure of the Business Transformation and Policy and Performance Groups within the Council.

6.4 The cashable savings generated by the service review of Customer Services have been included in the base estimate as has an estimate of potential savings from the ongoing review into Environmental Health and Development Management. Finally, photovoltaics have been fitted to the Public Service Centre with an estimated return of 13.4% from the feed in tariff and reduced energy costs.

6.5 The base estimates also include the use of NHB as outlined previously at Paragraph 3.6 above.

6.6 The finance available to fund the Net Budget Requirement is as follows:

Financing	£
Government Settlement	-2,557,109
New Homes Bonus	-3,401,162
Collection Fund surplus	-103,500
Retained Business Rates	-261,375
Total	**-6,343,146**

6.7 The balance of financing therefore required is £3,320,196. This is funded by householders through Council Tax. The tax base for the forthcoming year is 31,814. This therefore generates a Council Tax of £104.36 at Band D which is an increase of 5.03% on the current year.

7.0 RISKS

7.1 The Council's budget is prepared using best estimates for the level and timing of expenditure, budget and efficiency savings and available resources. However, a number of uncertainties exist which could have an impact on the budget of the Council:

- Government Support – The settlement is only provisional and is subject to change. Whilst an indication of future years funding was included, this is not guaranteed. A prudent view of future years funding has been included in the MTFP.
- New Homes Bonus – The Council now relies heavily on this source of funding. The consultation document released indicates that it is very likely that future levels of NHB income will be severely reduced but the actual size and timing of reductions is not yet known.
- Business Rates – Until such time as the issues with backdated appeals have been resolved, accurately forecasting the level of business rate income in future years is difficult. The government has announced a review of the scheme which is expected to be financially neutral as is the revaluation for 2017. The detail of the 100% retained rates scheme is not yet known and neither are the new burdens the Council will need to take on as part of the deal.
- Interest Rate Forecasts – Rates continue at a historically low level. The current base rate is 0.5%. Our Treasury Advisers indicate that it is unlikely that rates will increase until late 2016 at the earliest and therefore a cautious approach has been adopted within the MTFP for forecasting likely returns.
- Welfare Reform – The introduction of Universal Credit has been delayed although a further phased roll out is planned for summer 2016. However other reforms are already having an impact on tenants ability to pay their rent e.g. the under occupancy charge. The Council is continuing to give full Council Tax support in 2016/17.
- Savings Plan – Whilst savings are only included in the budget after it has been concluded that they are deliverable, some aspects of the savings plan will still require ongoing management during the year to ensure that the agreed targets are met.
- Salary Award – An assumed 1% pay award has been included in the estimates. Any agreement in excess of this will require further finance to be sourced.

- Income – Assumptions about the level of likely income are at the high end of expectations in many areas. It is unlikely that additional income will be received above these estimates which can balance expenditure and any failure to meet the targeted income levels could result in a budget deficit.

7.2 Given the risks associated with estimating, and then delivering, the budget for 2016/17 it is suggested that, as in previous years, a sum of NHB is set aside as uncommitted to cover any deficit that may arise as a result of the risks. Section 3.6 details the proposed use of NHB and includes setting aside £150,000 to mitigate these risks. This is considered to be a prudent use of monies and has been fully utilised in both the current and previous year.

8.0 REVENUE RESERVES

8.1 As at 31 March 2015, the Council had useable earmarked reserves totalling £2.63m. In addition there was an uncommitted general fund working balance of £450,000.

8.2 The revenue reserves are reviewed annually as part of the closure of accounts. It is currently forecast that there is likely to be a yearend surplus on the budget as a result of additional income being received which can be utilised to further support the reserves of the Council. The monies will be used to further service aims and mitigate against budgetary risks in the medium term. A financial outturn report will be taken to Executive Committee in July to approve the reserves of the Council for 2016/17.

9.0 CAPITAL PROGRAMME

9.1 The current capital programme for the life of the current MTFS is shown at Appendix A.

9.2 The current programme is significant in size and includes commitments not only to the new leisure centre but also to the Roses Theatre, replacement grounds maintenance equipment, asset investment and community grants. It is estimated that capital balances, on current expenditure profiles, will total £6.2m by 31 March 2016 with a further net expenditure of £3.8m in 2016/17.

9.3 This profile of likely capital expenditure leaves a balance of £2.4m available for future year commitments and additional investment ambitions. Currently the Council funds a proportion of its Disabled Facility Grant expenditure from an annual commitment of its own capital resources as well as a contribution from government. The Council's contribution is estimated at £220,000 per annum and is a significant commitment from its remaining capital balances. Its expenditure also does not provide the Council with a direct financial return. The current review of the DFG scheme may help to reduce the ongoing commitment but the Council must start to plan for future year's expenditure being funded from borrowing, including the revenue impact of borrowing, or directly from revenue budgets.

9.4 The Council is also at the early stages of developing its plans for future investment in a range of initiatives such as the purchase of a new vehicle fleet for its waste and recycling, grounds maintenance and cleansing services. All of these initiatives will require significant investment at a level well in excess of its current capital balances. Whilst the Council will seek to dispose of less valuable assets to supplement its current capital receipts, it is inevitable that the Council will need to consider borrowing, either internally or externally, in the next financial year.

10.0 STATEMENT OF CHIEF FINANCE OFFICER

10.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to make a statement on the robustness of the estimates and adequacy of financial reserves when considering its budget and Council Tax. The Act requires Councillors to have regard to the report in making decisions at the Council's budget and Council Tax setting meeting.

10.2 The basis on which the budget for 2016/17 and the MTFP have been prepared has been set out very clearly in this report and the previous MTFS report. I am satisfied that the budgets for the general fund and the capital programme have been based on sound assumptions.

10.3 The grant settlement for 2016/17 has had a significant impact on the Council's finances and the current economic climate continues to challenge the financial affairs of the Council. However, with the planning that has taken place with the Transform Working Group and the budget and efficiency savings that have been identified, the Council is able to set a balanced budget for 2016/17.

10.4 From 2016/17 onwards, the Council is increasingly dependent on general fund balances and New Homes Bonus allocations to support its annual spending plans. Action needs to be taken to ensure that, in future years, the Council's spending plans are reduced to match the resources available.

10.5 The Council has a good record for only including in the budget income estimates that are deliverable. The Council's core expenditure requirements are well understood, budgeted for accordingly and delivered in accordance with the estimates. It is on this basis that I am satisfied the estimates are robust.

10.6 The requirement for financial reserves is acknowledged in statute. Section 32 and 43 of the Local Government Finance Act 1992 requires billing authorities to have regard to the level of reserves needed for meeting future expenditure when calculating the budget requirement.

10.7 The Council's earmarked reserves are reviewed as set out in the report. Clearly there is an opportunity cost to holding reserves and so a regular review is essential to ensure the Council does not hold money in reserves unnecessarily.

10.8 The General Fund balance is adequate to meet any unforeseen requirements.

10.9 Overall, I am satisfied that the projected levels of reserves and balances held by the Council are adequate for the forthcoming year but will continue to review the position as necessary.

11.0 SEMI ANNUAL TREASURY OUTTURN REPORT 2015/16

11.1 The Semi Annual Treasury Outturn Report for 2015/16 is attached at Appendix C. It is a requirement of the CIPFA Treasury Management in the Public Services: Code of Practice 2011 that treasury activities are reported to members at least twice yearly.

11.2 The report notes that at the half year point of the financial year, treasury activities have resulted in an average return of 0.83%. The full year projection suggests investment returns of £115,000 against the budget estimate of £188,000. This loss is as a result of the substantial refunds issued to Virgin Media in respect of Business Rate appeals and an equalisation reserve has been established to compensate for this deficit.

12.0 TREASURY STRATEGY 2016/17

12.1 The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that, along with the CIPFA Treasury Management in the Public Services: Code of Practice 2011 requires the Council to approve an investment strategy before the start of each financial year.

12.2 The Treasury Management Strategy 2016/2017, in Appendix D, sets the framework in which day-to-day and strategic treasury activities are operated. The documents are compiled from the recommendations within the CIPFA guidance and from the Council's Treasury Management advisors with consideration given to the current financial climate and factors affecting market conditions.

12.3 Both the CIPFA Code and the DCLG 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 strategy proposed addresses these requirements as well as the changing legislation with regards to failing banks and proposes a policy of diversification, utilising a number of investment vehicles, in order to protect the Council.

13.0 MINIMUM REVENUE PROVISION

13.1 The statement at Appendix B sets out the Council policy on making a Minimum Revenue Provision (MRP) for the 2016/17 financial year in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. At present the Council does not have any borrowing charges, either supported or unsupported.

13.2 The Council has ambitions for regeneration, investment in housing and the purchase of a new vehicle fleet. The Council will look to utilise capital and revenue balances where possible in order to reduce the revenue impact of investment plans. However, where either internal or external borrowing is required a MRP will be required to be made. Again to minimise the impact on the revenue account, the financially most advantageous MRP option will be chosen.

14.0 CONSULTATION

14.1 Consultation on the budget has taken place with the Transform Working Group. In addition, a public and business consultation has taken place on general budgetary principles. The Council is also consulting with business rate payers on the specific proposals for 2016/17 as it is statutorily required to do.

14.2 With regard to the public consultation, only 40 responses were received. Over 77% of respondents were prepared to increase Council Tax in order to protect services with 27% prepared to accept an increase of 4% or more. The most popular service was waste collection and recycling but a number of negative comments were received on street cleaning. These comments have been passed to the Service Manager to address. Finally, when asked about charges set by the Council, none of the respondents felt the current garden waste charge was expensive.

15.0 RELEVANT COUNCIL POLICIES/STRATEGIES

15.1 In line with Medium Term Financial Strategy approved by Council on 8 December 2015.

16.0 RELEVANT GOVERNMENT POLICIES

16.1 The Government has set down excessive Council Tax increase rules. Any increase in Band D Council Tax over a set limit will trigger a local referendum. The proposal for an increased Council Tax of £5 at Band D will mean that no referendum is required for Tewkesbury.

17.0 RESOURCE IMPLICATIONS (Human/Property)

17.1 Significant savings have been necessary to provide a balanced budget. Some of these have staffing implications although compulsory redundancy will be avoided wherever possible, but this cannot be ruled out.

18.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

18.1 None directly.

19.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

19.1 Changes may be required to the way services are provided in order to reduce costs. Service Managers are responsible for undertaking Equalities Impact Assessments (EIAs) for any changes they make to any services they provide and where appropriate, EIAs will have been undertaken.

20.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

20.1 Approval of Medium Term Financial Strategy – Council 8th December 2015.

Background Papers: Medium Term Financial Strategy.

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Appendices:
A - Capital Programme.
B - Capital Prudential Indicators & MRP.
C - Treasury mid-year report.
D - 2016-17 Treasury Strategy.

Forecast Capital Programme 2015 - 2020

Appendix A

Scheme	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£	£	£	£	£	£
Council Projects						
Tewkesbury - Riverside walk	29,865	0	0	0	0	**29,865**
Tewkesbury Town Regeneration	0	90,000	0	0	0	**90,000**
ICT Strategy	50,432	0	0	0	0	**50,432**
Asset Investment	200,000	1,800,000	0	0	0	**2,000,000**
Leisure Centre Project	5,034,498	1,258,625	0	0	0	**6,293,123**
Grounds Maintenance equipment	0	61,000	0	0	0	**61,000**
Roses Theatre	150,000	0	0	0	0	**150,000**
	5,464,795	**3,209,625**	**0**	**0**	**0**	**8,674,420**
Capital Grants						
Older capital grants	465	111,697	0	0	0	**112,162**
Community Grants Working Group	395,213	169,132	17,582	0	0	**581,927**
	395,678	**280,829**	**17,582**	**0**	**0**	**694,089**
Other Capital Expenditure						
Disabled Facilities Grants	717,000	717,000	717,000	717,000	717,000	**3,585,000**
Asset Capitalisation	100,000	100,000	0	0	0	**200,000**
	817,000	**817,000**	**717,000**	**717,000**	**717,000**	**3,785,000**
Capital Expenditure	**6,677,473**	**4,307,454**	**734,582**	**717,000**	**717,000**	**13,153,509**
Capital Resources						
Capital Receipts received	0	0	0	0	0	**0**
Capital Grants received	-497,000	-497,000	-497,000	-497,000	-497,000	**-2,485,000**
Capital income	**-497,000**	**-497,000**	**-497,000**	**-497,000**	**-497,000**	**-2,485,000**
Closing capital balance	**6,204,406**	**2,393,952**	**2,156,370**	**1,936,370**	**1,716,370**	

Appendix B

Prudential Indicators and MRP Statement 2016/17

Prudential Indicators 2016/17

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy'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, within a clear framework, 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.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the capital programme report within the budget setting report.

Capital Expenditure and Financing	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
General Fund	9.291	5.252	5.247	0.747
Total Expenditure	**9.291**	**5.252**	**5.247**	**0.747**
Capital Receipts	7.294	3.755	2.250	0.250
Government Grants	0.497	0.497	0.497	0.497
Reserves	0	0	0	0
Revenue	0	0	0	0
Borrowing (internal)	1.500	1.000	1.000	0
Borrowing (external)	0	0	1.500	0
Leasing and PFI	0	0	0	0
Total Financing	**9.291**	**5.252**	**5.247**	**0.747**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Revised £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
General Fund	1.500	1.000	2.500	0.000
Total CFR	**1.500**	**2.500**	**5.000**	**5.000**

The CFR is forecast to rise by £5m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that external debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.16 Revised £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
Borrowing	0	0	1.500	0
Finance leases	0	0	0	0
PFI liabilities	0	0	0	0
Total Debt	**0.000**	**0.000**	**1.500**	**1.500**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario 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 Authority's debt.

Operational Boundary	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	2.000	5.000	5.000	5.000
Other long-term liabilities	0	**0**	0	0
Total Debt	**2.000**	**5.000**	**5.000**	**5.000**

Authorised Limit for External Debt: 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	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	5.000	7.500	10.000	10.000
Other long-term liabilities	0	**0**	0	0
Total Debt	**5.000**	**7.500**	**10.000**	**10.000**

Ratio of Financing Costs to Net Revenue Stream: 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, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	-1.41	**-0.85**	-0.4	1.3

For the next 3 periods there is a negative ratio as investment income is higher than borrowing costs and impact of the MRP. It is not until 2018/19 that MRP impact is high enough that borrowing becomes a proportion of the revenue budget.

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed [earlier in this report].

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	0.63	1.89	1.89

Annual Minimum Revenue Provision Statement 2016/17

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. 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.

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, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

Select from and amend as many of the following paragraphs as appropriate:

> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity with an annual interest rate, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. *(Option 3 in England and Wales)*

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2016, the budget for MRP has been set as follows:

	31.03.2016 Estimated CFR £m	**2016/17 Estimated MRP £m**
Unsupported capital expenditure after 31.03.2008	**1.500**	0.040
Total General Fund	**1.500**	**0.040**

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Semi-Annual Treasury Report 2015/16

1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

The Authority's Treasury Management Strategy for 2015/16 was approved by full Council on Thursday, 19th February 2015 which can be accessed on:

http://minutes.tewkesbury.gov.uk/ieListDocuments.aspx?CId=256&MId=2242&Ver=4

The Authority has borrowed and invested 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. This report covers treasury activity and the associated monitoring and control of risk.

2. External Context

As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centered on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minster of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

UK Economy: The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and construction and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

Market reaction: Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

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Local Context

At 31/3/2015 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £0.73m, while usable reserves and working capital which are the underlying resources available for investment were £22.082m.

At 31/3/2015, the Authority had £0m of borrowing and £14.395m of investments. The Authority is currently debt free, and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £9.028m as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget.

Borrowing Strategy

At 30/9/2015 the Authority held £2m of loans, (an increase of £2m on 31/3/2015), borrowed solely for cash flow purposes. This loan will be paid back on 08/10/2015.

The Authority does not expect to borrow to fund capital activities in 2015/16.

Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2015/16 the Authority's investment balances would range between £15.5 and £9.028 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Semi-Annual Treasury Report 2015/16

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2015 £m	Avg Rate/Yield (%)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities	11.5	12.835	18.335	6.0	1.20
Long term Investments - Banks and Building Societies with ratings of A+ or higher - Local Authorities	0.0	0.0	0.0	0.0	N/A
UK Government: - DMADF - Treasury Bills - Gilts	0.0	0.0	0.0	0.0	N/A
Money Market Funds	1.365	30.892	27.792	4.465	0.44
Other Pooled Funds *(VNAV funds)*	1.5	2.0	0.0	3.5	0.72
Investments with Registered Providers of Social Housing rated BBB- or higher	0.0	0.0	0.0	0.0	N/A
- Bonds issued by Multilateral Development Banks - Covered Bonds - Corporate Bonds	0.0	0.0	0.0	0.0	N/A
Financial Institutions without credit ratings	1.0	0.5	1.0	0.5	0.52
Other organisations (e.g. loans to small businesses)	0.0	0.0	0.0	0.0	N/A
TOTAL INVESTMENTS	15.365	46.227	47.127	14.465	0.83
Increase/ (Decrease) in Investments £m				**-0.9**	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

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Given the increasing risk and continued low returns from short-term unsecured bank investments, and having estimated that £2m is available for longer-term investment, the Authority diversified further into more secure and/or higher yielding asset classes such as pooled funds which have the advantage of diversifying investment risks without the need to own and manage the underlying investments, coupled professional fund management.

Credit Risk
Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2015	5.57	A	5.87	A
30/06/2015	5.17	A+	5.02	A+
30/09/2015	4.90	A+	5.38	A+

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Counterparty Update

All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thueringen.

S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A.

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At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

Budgeted Income and Outturn

The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 1). New deposits were made at an average rate of 0.66%. Investments in Money Market Funds generated an average rate of 0.45%.

The Authority's budgeted investment income for the year is estimated at £188,000. The Authority anticipates an investment outturn of £115,000 for the whole year. This is in line with expected levels of income following a series of refunds for business rates that have depleted the council's investment balances. An equalisation reserve has been established to cover the losses on this income stream.

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2015/16, which were set in February 2015 as part of the Authority's Treasury Management Strategy Statement.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	£10m	£10m	£10m
Actual	£0m		
Upper limit on variable interest rate exposure	£0m	£0m	£0m
Actual	£0m		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

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Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£4m	£3m	£2m
Actual	£0m	£0m	£0m

Other Prudential Indicators

The following three prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	2.000	2.000	5.000	5.000
Other long-term liabilities	0	0	0	0
Total Debt	**2.000**	**2.000**	**5.000**	**5.000**

Authorised Limit for External Debt: 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.

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Authorised Limit	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	5.000	5.000	7.500	10.000
Other long-term liabilities	0	0	0	0
Total Debt	**5.000**	**5.000**	**7.500**	**10.00**

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012.

Investment Training

The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staffs regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Outlook for Q3 and Q4 2015/16

Arlingclose's expectation for the first rise in the Bank Rate (base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015, although risks of issues from China could possibly push this back.

The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Average
Official Bank Rate														
Upside risk			0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.32
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.08
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-0.70

Appendix 1

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Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015		0.50		0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015		0.50		0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015		0.50		0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015		0.50		0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015		0.50		0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015		0.50		0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015		0.50		0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
Average		**0.50**		**0.40**	**0.46**	**0.43**	**0.53**	**0.76**	**0.99**	**1.03**	**1.25**	**1.58**
Maximum		**0.50**		**0.48**	**0.58**	**0.56**	**0.65**	**0.86**	**1.02**	**1.17**	**1.44**	**1.82**
Minimum		**0.50**		**0.17**	**0.40**	**0.43**	**0.51**	**0.55**	**0.97**	**0.87**	**1.04**	**1.29**
Spread		**--**		**0.31**	**0.18**	**0.13**	**0.14**	**0.31**	**0.05**	**0.30**	**0.40**	**0.53**

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	128/15	1.32	2.07	2.66	3.21	3.34	3.30	3.28
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
29/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
28/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
	Low	1.31	2.02	2.60	3.16	3.28	3.23	3.21
	Average	1.46	2.32	2.96	3.51	3.59	3.52	3.49
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

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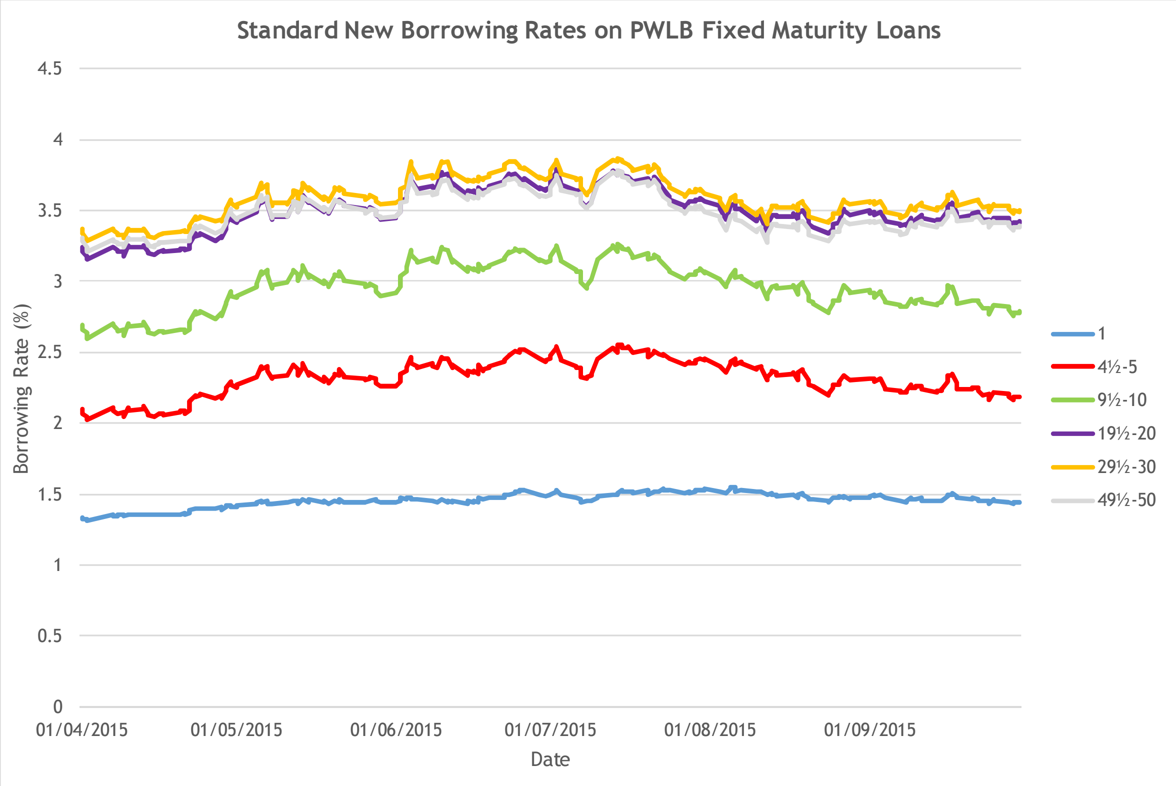

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/15	1.63	2.11	2.68	3.00	3.22	3.32
30/04/2014	166/15	1.79	2.31	2.92	3.24	3.45	3.54
29/05/2014	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2014	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2014	294/15	1.96	2.50	3.09	3.39	3.57	3.63
28/08/2014	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2014	379/15	1.76	2.23	2.82	3.19	3.43	3.51
	Low	1.60	2.06	2.62	2.94	3.16	3.26
	Average	1.84	2.37	2.99	3.31	3.51	3.59
	High	1.99	2.60	3.28	3.61	3.79	3.87

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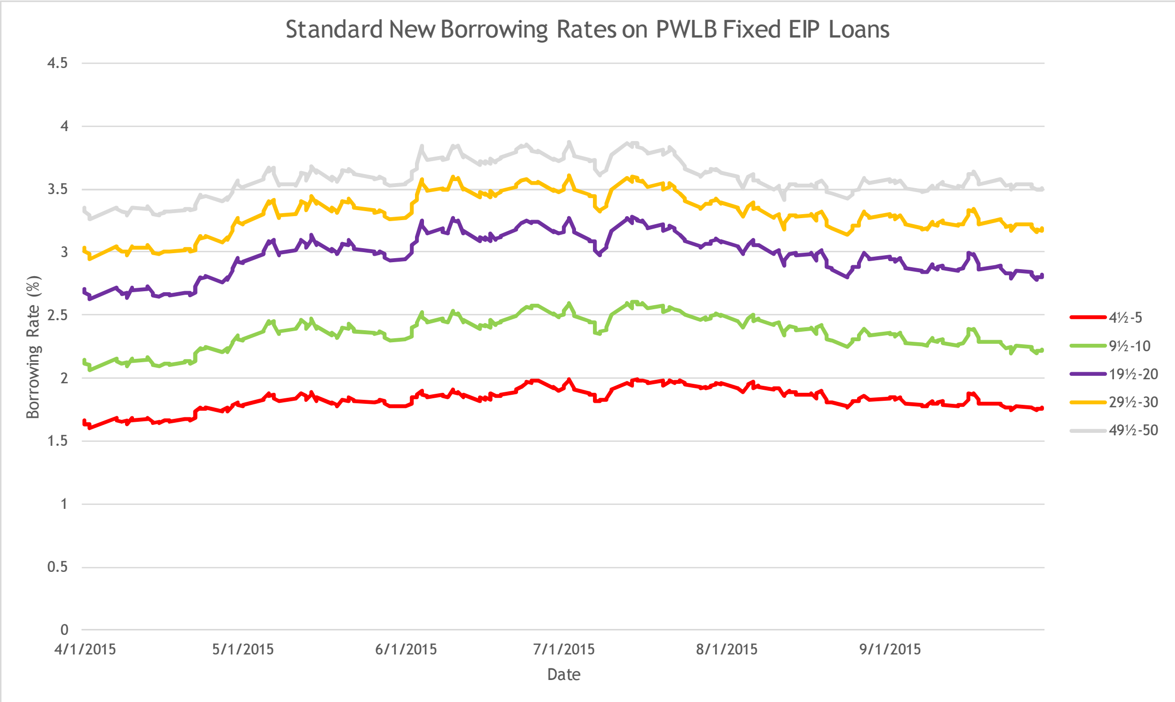

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
29/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
28/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
Low	0.62	0.61	0.66	1.52	1.51	1.56
Average	0.63	0.65	0.70	1.53	1.55	1.60
High	0.66	0.69	0.78	1.56	1.59	1.68

Appendix D

Treasury Management Strategy Statement 2016/17

Introduction

In February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

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

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

External Context

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

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

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

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

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

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

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

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

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.0%.

Local Context

The Authority currently has no borrowing and £12.1m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Forecast £m	31.3.18 Forecast £m	31.3.19 Forecast £m
General Fund CFR	0.730	1.500	1.000	2.500	0.000
Less: Other debt liabilities	-0.730	0.000	0.000	0.000	0.000
Borrowing CFR	**0.000**	**1.500**	**1.000**	**2.500**	**0.000**
Less: External borrowing **	0.000	0.000	0.000	1.500	0.000
Internal borrowing	**0.000**	**1.500**	**1.000**	**1.000**	**0.000**
Less: Usable reserves	-22.952	-9.658	-4.903	-2.653	-2.000
Less: Working capital	-0.8700	-0.8700	-0.8700	-0.8700	-0.8700
Investments	**22.082**	**9.028**	**4.7730**	**2.5230**	**1.1300**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

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

The Authority is currently debt free. However, it has an increasing CFR due to the capital programme, and will therefore be required to externally borrow up to £1.5m over the forecast period.

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

Borrowing Strategy

The Authority currently has no loans and is debt free. The balance sheet forecast in table 1 shows that the Authority does not expect to need to externally borrow in 2016/17. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £7 million.

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

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

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

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

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

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

- Public Works Loan Board (PWLB) and any successor body
- 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 (except Gloucestershire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

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

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

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £9.028 and £15.5 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: 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 Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, pooled funds and money market funds. This diversification will represent a continuation of the new strategy adopted in 2015/16.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	**Banks Unsecured**	**Banks Secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£2m 20 years	£5m 50 years	£1m 20 years	£2m 20 years
AA+	£2m 5 years	£2m 10 years	£5m 25 years	£1m 10 years	£2m 10 years
AA	£2m 4 years	£2m 5 years	£5m 15 years	£1m 5 years	£2m 10 years
AA-	£2m 3 years	£2m 4 years	£5m 10 years	£1m 4 years	£2m 10 years
A+	£2m 2 years	£2m 3 years	£5m 5 years	£1m 3 years	£2m 5 years
A	£2m 13 months	£2m 2 years	£5m 5 years	£1m 2 years	£2m 5 years
A-	£2m 6 months	£2m 13 months	£5m 5 years	£1m 13 months	£2m 5 years
BBB+	£1m 100 days	£1m 6 months	£5m 2 years	£0.5m 6 months	£1m 2 years
BBB	£1m next day only	£1m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£5m 25 years	£50,000 5 years	£2m 5 years
Pooled funds	£2m per fund				

This table must be read in conjunction with the notes below

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

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

Specified Investments: The 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".

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

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, 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	£2m
Total investments without credit ratings or rated below A-	£3m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£2m
Total non-specified investments	£7m

Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £4.5 million on 31st March 2016. With the exception of the Council's current account bank, Barclays, the maximum that will be lent to any one organisation (other than the UK Government) will be £2 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£2m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£2m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Registered Providers	£4m in total
Unsecured investments with Building Societies	£2m in total

Loans to unrated corporates	£2m in total
Money Market Funds	£7.5m in total

Liquidity Management: The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	£5m	£5m	£5m
Upper limit on variable interest rate exposure	£0m	£0m	£0m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£2m	£2m	£1m

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Investment Training: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Investment Advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. Responsibility for final decision making remains with the Council and its officers. Periodic review by senior officers controls the quality of this service.

Investment of Money Borrowed in Advance of Need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £5 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2016/17 is £120,000, and the budget for debt interest paid in 2016/17 is £4,000. These figures are based upon the latest interest rate forecast, capital expenditure estimates and with consideration to likely investment options available. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Lead Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2015

Underlying assumptions:

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

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

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

Appendix B – Existing Investment & Debt Portfolio Position

	31st December 2015 **Actual Portfolio** **£m**	31st December 2015 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	0.0	N/A
PWLB – Variable Rate	0.0	N/A
Local Authorities	0.0	N/A
LOBO Loans	0.0	N/A
Total External Borrowing	0.0	N/A
Other Long Term Liabilities:		
PFI	0.0	N/A
Finance Leases	0.0	N/A
Total Gross External Debt	**0.0**	**N/A**
Investments:		
Managed in-house	0.0	N/A
Short-term investments	8.6	0.86
Long-term investments	0.0	N/A
Managed externally	0.0	N/A
Fund Managers	0.0	N/A
Pooled Funds	3.5	0.83
Total Investments	**12.1**	**0.85**
Net Debt	**0.0**	**N/A**

Agenda Item 11

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