



*Summons to the  
Council Meeting*

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**3 March 2016**







# STOCKPORT

METROPOLITAN BOROUGH COUNCIL

Your attendance is requested at a meeting of the Stockport Metropolitan Borough Council to be held in the Council Chamber, Town Hall, Stockport, on Thursday, 3 March 2016 at six o'clock in the evening.

## **1. FORMALITIES AND ANNOUNCEMENTS**

### (i) Mayor's Announcements

To receive announcements from the Mayor.

### (ii) Declarations of Interest

Councillors and officers to declare any interests which they may have in any of the items on the Summons for the meeting.

## **2. COMMUNITY ENGAGEMENT**

### (i) Public Question Time

To receive any questions from and provide answers to the public, in relation to matters relevant to the Council's activities.

### (ii) Petitions and Presentations

To receive petitions, and by prior arrangement, receive delegations and presentations from members of the public, community groups or partnership organisations.

No such arrangements have been made for this meeting.

## **3. POLICY FRAMEWORK AND BUDGET**

### (i) Investing in Stockport - Stockport Council Plan 2016/17 (Pages 6-49)

To consider a report of the Leader of the Council.

### (ii) Medium Term Financial Plan - Financial Landscapes and Forecast 2016/17 to 2020/21 (Update following the Local Government Finance Settlement) (Pages 50-71)

To consider a report of the Deputy Leader of the Council and Executive Councillor (Support & Governance).

### (iii) 2016/17 Revenue Budget, Capital Programme and Medium Term Financial Plan (Pages 72-121)

To consider a joint report of the Leader of the Council and the Deputy Leader of the Council Executive Councillor (Support & Governance).

(iv) **Council Tax 2016/17**

(Pages 122-125)

To consider a report of the Deputy Leader of the Council and Executive Councillor (Support & Governance) and to pass the appropriate resolutions setting the Council Tax for 2016/17.

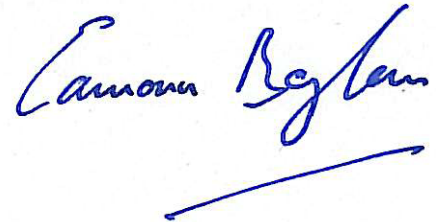
(Draft Report and Resolutions enclosed)

(v) **Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy 2016/17**

(Pages 126-177)

To consider a report of the Deputy Leader of the Council and Executive Councillor (Support & Governance).

(NOTE: The minutes of the Executive Meeting on 16 February 2016, setting out recommendations on the Policy Framework & Budget items are enclosed at pages 178-185).



Eamonn Boylan  
Chief Executive

Town Hall  
Stockport

24 February 2016



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যদি এই খবরগুলি সম্পর্কে আপনার কোন সাহায্য দরকার হয় তবে বিনা খরচে আপনার জন্য দোভাষীর ব্যবস্থা করা হতে  
পারে। মেহেরবানী করে স্টকপোর্ট ইন্টারপ্রিটিং ইউনিটে ফোন করুন টেলিফোন নম্বর, 0161 477 9000.

اگر آپ کو ان معلومات کے بارے میں مدد کی ضرورت ہے تو مفت ترجمانی کی سروس دستیاب ہے۔ براہ مہربانی انٹرپرائٹنگ یونٹ کو  
0161 477 9000 پر فون کریں۔

خدمات ترجمہ رایگان این اطلاعات در صورت نیاز موجود میباشد. لطفا با شماره تلفن 0161 477 9000 با  
واحد ترجمہ (اینترپرائٹنگ یونٹ) ما تماس بگیرید.

تنوفر خدمة ترجمة شفوية اذا تطلبت مساعدة في فهم هذا المعلومات. نرجو الاتصال اربن رينيول على رقم  
الهاتف: 0161 477 9000

## THE STOCKPORT COUNCIL PLAN 2016/17

Report of the Executive Leader (Policy, Reform and Finance)

### 1. INTRODUCTION AND PURPOSE OF REPORT

- 1.1 To recommend the draft Council Plan for 2016/17 for approval by the Council Meeting and formal adoption from April 2016.

### 2. INFORMATION

- 2.1 The 2015/16 Council Plan was approved by the Budget Council Meeting in February 2015. As we move into the delivery phase of the IIS programme, the refreshed 2016/17 Plan continues to reflect the outcomes and structure.
- 2.2 The new Plan is also aligned with the longer-term vision set out in the Borough Plan (approved by the Council Meeting in September), and supports the delivery of the Medium Term Financial Plan. The focus on growth and reform continues, with an added emphasis on GM devolution, along with the development of a new approach towards inclusion.
- 2.3 The importance of the Digital by Design and Locality Working programmes is also highlighted as key to enabling and supporting change during 2016/17 and beyond. As with 2015/16, the IIS programmes and projects are aligned to the Investing in Stockport outcomes framework, along with major capital schemes and other key projects. Milestones and key benefits have been included, reflecting the latest Business Cases for these projects that were agreed by the Executive in December.
- 2.4 The information within the high-level Council Plan provides the basis for more detailed Portfolio Agreements and resource planning for 2016/17, along with the Portfolio and Corporate reports for 2016/17; together this information provides the framework for regular Scrutiny by Elected Councillors. Following last year's review it is not currently envisaged that major changes will be required to the Performance and Resources (P&R) framework for 2016/17.
- 2.5 Draft Portfolio Agreements alongside any changes to the P&R framework that are necessary will be presented to the Executive in July, following consultation with Scrutiny Committees in June. These will provide the basis for regular Portfolio Performance and Resource reporting throughout 2016/17.
- 2.6 The Executive is developing an approach to the pooling of significant budgets with NHS Stockport CCG. Should circumstances not afford an opportunity to proceed with these arrangements, there would likely be knock-on effects for wider Council spending and activity in light of which both the MTFP and this Council Plan would need to be amended. The Executive expect to be in a position to agree the new pooled budget and related arrangement in March.
- 2.7 Following approval by the Executive on 16 March, the Plan is submitted to the Council Meeting for endorsement. An Equality Impact Assessment (EIA) is also included.

### **3. CONCLUSIONS**

- 3.1 Our Investing in Stockport Plan provides a framework for moving towards self-funding over the coming years, stressing both the importance of investing both in a growing local tax base and the independence and resilience of local people.

### **4. RECOMMENDATIONS**

The Council Meeting is asked to consider and approve the 2016/17 Council Plan for adoption from April 2016.

#### **BACKGROUND PAPERS**

There are none.

Anyone requiring further information or wishing to discuss the report should contact **Steve Skelton** (Head of Policy, Performance and Reform) Tel: 474 3174

# STOCKPORT COUNCIL PLAN 2016/17



STOCKPORT  
METROPOLITAN BOROUGH COUNCIL

**INVESTING  
INSTOCKPORT**



**STOCKPORT**  
METROPOLITAN BOROUGH COUNCIL

# Introduction

## The Leader of Stockport Council

The last twelve months have seen a number of significant changes as we continue to address some of the most challenging conditions the Council has ever faced. The first year of our Investing in Stockport programme has seen ourselves and partners investing in the growth of the town centre and the Borough alongside reforming the way we deliver services.

The challenges of increasing demand and reducing resources can't be met by the Council alone. We are working closely with other public services across Stockport to make our resources go further. The Stockport Partnership recently published a 5-year Borough Plan, focused around shared priorities and key programmes of change. These include the integration of health and social care services, joined-up local services to support children and families, investing in growth and investing in communities.

This is also an exciting time for Stockport, as we are at the centre of leading and influencing plans to devolve powers and responsibilities to Greater Manchester. We see this as critical to achieving our ambitions for the Borough, with our local economy set to benefit from an integrated approach to employment, housing, transport and crime. The devolution of NHS budgets to the Combined Authority from April will be a huge opportunity for collaboration and ground-breaking innovation to address the long-term health and care needs of our population.

The next year will continue to be a transitional year in many ways, as services move towards new ways of working and key regeneration projects such as Redrock and Stockport Exchange start to take shape. This Council Plan outlines how these programmes of work will continue to support the delivery of our priorities during 2016/17.

Our Investing in Stockport Plan provides a framework for moving towards self-funding over the coming years, stressing both the importance of investing both in a growing local tax base and the independence and resilience of local people.



**Sue Derbyshire**  
Executive Leader, Stockport Council

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# Focusing on delivering growth and reform

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The Executive has set out the Council's strategic priorities, along with the principles which underpin our work. This initial two-year programme of investing in growth and reform provided the basis for the 2015/16 Council Plan, with this refreshed plan highlighting the key priorities for the next 12 months.

The recently-launched Stockport Borough Plan provides a high-level vision shared by our partners, focusing on outcomes that everyone can work towards achieving by 2020.

Devolution of a range of powers, budgets and responsibilities to the Greater Manchester Combined Authority is underway. This will provide new opportunities to integrate health and social care services, take a more co-ordinated approach to building new housing and creating more jobs for local people, and improving transport links.

All this is set against a backdrop of maintaining overall performance levels whilst delivering a balanced budget, despite continued reductions in Government funding alongside increasing demands on services. We are likely to become increasingly reliant on generating our own income in the future to ensure that the Council can maintain high quality services for local residents.

Our ambitions for Investing in Stockport are shaped around key themes, which will continue to develop over the next 12 months. We will be an outcome-focused Council, working with partners and local communities to identify and deliver shared outcomes that make a real impact on the lives of Stockport residents. By being a preventative Council we will work across all public

services in the Borough, spending more of our money helping people early, to try and stop problems getting worse.

We will use digital technology to keep people informed and connected, and to reduce the cost of services, whilst helping to get a better understanding what future people in Stockport want for their communities, and how we get there together. We will also continue to make targeted investments in the future, taking the risks needed to stimulate new investment and economic growth, creating more income and employment opportunities in the Borough.





# INVESTING INSTOCKPORT

This will be driven by the five key outcomes, shared across all public services in the Borough, aiming for a future in which;



The following pages of the Plan outline what we aim to achieve under each of these outcomes, what we achieved during 2015/16, along with the key projects and programmes involving a range of public services including;

- Stockport Together
- Stockport Family
- New Delivery Models
- Enabling Programmes

Further information on each of these is available in detailed Business Cases which were approved by the Executive in December 2015.

Councillors from all parties will continue to provide strong and accountable civic leadership to encourage those working for a better Stockport to play their part in delivering this future. The Executive will take a lead in advocating for progress towards these outcomes, working with local families, businesses and partner agencies.



# 1. People are able to make informed choices and look after themselves

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## What does this mean?

Most people rely on their own skills and knowledge, and on friends, families and their local community, to deal with most of what life throws at them. It's vital that people continue to acquire and use these skills confidently in order to live independent and fulfilling lives. For this to happen;

- children need the best start in life, forming strong attachments with parents that understand and can meet their needs
- learners need to reach their potential, so they can compete for opportunities that will enrich their lives
- people need the knowledge and opportunity to live well, at all ages

## What's the Council's role?

High quality 'universal' services that help people to help themselves are key to delivering this outcome, including our work to:

- Promote and improve public health
- Provide high quality advice and information
- Support and improve residents' education
- Provide a range of services for children and young people

## What are we aiming to achieve?

Working with other public services to deliver our priorities, by 2020 we aim to ensure that;

- People will be living longer, healthier lives
- People will be better qualified

## What has been achieved in the last 12 months?

- A number of services are being re-commissioned to provide a more joined-up and preventative approach through Drug and Alcohol Treatment, the Wellbeing and Independence Network, the Targeted Prevention Alliance and the Alliance for Positive Relationships.
- Investment in Stockport's schools is helping to increase primary school capacity so more children can attend their first choice school, along with supporting parents to help children improve attendance and attainment levels.







## Our delivery priorities in 2016/17 to help people make informed choices and look after themselves

Delivery programme and description	Milestones for 2016/17	Key benefits
<p><b>Stockport Together</b></p> <p><b>Preventative Commissioning</b> A review of a range of services delivered across Stockport, with a focus on improving improving health and wellbeing for residents. This includes services to support people to lose weight, stop smoking and reduce alcohol consumption.</p>	<p>A new service will be established by October 2016 to deliver advice and support to promote healthier lifestyles.</p>	<p>To build community capacity, and increase personal and community resilience.</p> <p>To support action to improve health and wellbeing across the community and for the individual.</p>
<p><b>Proactive Care</b> Ambitious programme of reform to integrate community based health and social care services across the Borough.</p>	<p>From April 2016, pooled budget arrangements will be in place between Stockport Council and Stockport Clinical Commissioning Group.</p> <p>This will lead to joint commissioning arrangements across health and social care from 2017.</p> <p>During 2016, new integrated health and care service 'hubs' will be rolled out across the Borough</p>	<p>More people able to be supported closer to home.</p> <p>More people able to manage and direct their own care needs.</p>



Delivery programme and description	Milestones for 2016/17	Key benefits
<p><b>Stockport Family</b></p> <p>Establishing a single, fully integrated Stockport Family Service that provides the highest quality support to Stockport's most vulnerable children and families.</p>	<p>New service launched from April 2016, with local teams in place.</p> <p>New digital services available by the end of 2016.</p> <p>By March 2017, around 1300 staff will be trained in the new family-centred approach.</p>	<p>More families get support, helping improve family and child outcomes, and reducing escalation of cases.</p> <p>Better outcomes will include;</p> <ul style="list-style-type: none"> <li>• Fewer child protection plans</li> <li>• Improved school attendance</li> <li>• More young people in education, employment or work based training</li> <li>• Fewer young people involved in crime</li> <li>• Fewer teenage pregnancies</li> </ul>

## New Delivery Models

<p><b>Information, Advice &amp; Guidance (IAG)</b></p> <p>Access to high quality sources of IAG in a number of ways which optimise delivery. Ensuring most people can access a range of self service options, along with 'assisted digital' support, whilst working closely with services for those with more complex needs.</p>	<p>Improvements to the Fred Perry House reception area to provide more digital access and support delivery of the new service.</p> <p>The new service will be in place by May.</p>	<p>Information, advice and guidance needs are met through the most appropriate and timely method.</p> <p>Increase in digital contacts and a reduction in telephone calls, face to face contacts and repeat contacts.</p> <p>Provision of 'Assisted Digital' service, which will prioritise additional support for those people who need it.</p>
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## Other key activities and projects which will contribute to this outcome during 2016/17

### **Market capacity and development**

Following reviews of the care home and domiciliary care sectors, the priority is to stabilise and manage the supply of care in these markets.

### **Improving the health of the local population and reducing health inequalities**

A new approach will focus on early intervention and prevention to support people in making the changes needed to improve the health and wellbeing of the Stockport population. This will also focus on improving targeted outcomes in relation to children and young people's health.

### **Supporting the role of continuing education in promoting independence and wellbeing.**

Reviewing local arrangements with learners to ensure that post-19 learning continues to support employability and can improve outcomes.

### **Child Poverty**

Addressing child poverty and inequalities as part of a coordinated approach to promoting inclusion across public services.



## 2. People who need support get it

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### What does this mean?

While we will promote independence and resilience, there are clearly times in a person's life when they will need access to more support, and in some cases specialist services, in order to get the best start in life; to learn and fulfil their potential; and to live well.

This support must help people live as independently as possible and offer choice and control. Where there is risk of harm, appropriate steps to safeguard and protect people will be needed in order to achieve the outcome.

### What's the Council's role?

The Council will work with statutory, community, private, voluntary and independent sector partners to ensure high quality targeted support is provided to those with real need, for example through:

- Children's social care and safeguarding
- Care services and support for adults and older people
- Support for people with special educational needs and/or disability
- Support for people's mental wellbeing

### What are we aiming to achieve?

Working with other public services to deliver our priorities, by 2020 we aim to ensure that;

- More people can live independently in their own homes for longer
- All children have the best possible start in life
- People are able to access a wide range of support when they need it most

### What has been achieved in the last 12 months?

- Integrated health, social care and children's services are now co-located across Stockport as part of the Stockport Together and Stockport Family programmes.
- We are supporting more older people to live independently rather than going into residential or nursing care, with almost 9 in 10 people over 65 still at home 3 months after coming out of hospital.
- Following the launch of a Domestic Abuse Strategy and action plan, the number of children referred to social care services is reducing significantly.





## Our delivery priorities in 2016/17 to make sure people who need support get it

Delivery programme and description	Milestones for 2016/17	Key benefits
<p><b>Stockport Together</b></p> <p><b>Proactive Care</b> An ambitious programme of reform to integrate community based health and social care services across the Borough.</p>	<p>From April 2016, pooled budget arrangements will be in place between Stockport Council and Stockport Clinical Commissioning Group.</p> <p>This will lead to joint commissioning arrangements across health and social care from 2017.</p> <p>During 2016, new integrated health and care service ‘hubs’ will be rolled out across the Borough.</p>	<p>More people able to be supported closer to home.</p> <p>More people able to manage and direct their own care needs.</p>
<p><b>Mental Health Support Service</b> Working with Pennine Care Foundation Trust to re-design mental health and support services. This will include management changes and a detailed review to inform future services.</p>	<p>A revised staffing structure will be introduced which incorporates supporting people to remain in their own homes with the work of the Community Mental Health teams.</p> <p>This will be fully implemented within the Foundation Trust by May.</p>	<p>Reduced duplication between different community mental health teams.</p> <p>Improved care planning and increased flexibility to respond to support requests.</p>

## Delivery programme and description

### Learning Disability (LD) Services

Working with health and independent sector partners to ensure that people with learning disabilities are able to have equal access to the community, health services and local services tailored to meet often complex needs.

## Milestones for 2016/17

During the year, a robust and sustainable approach to local services will be developed. This will include;

- Outsourcing further LD tenancies
- Reducing placements outside the borough
- Reviewing care management and transport arrangements
- Identifying future investment opportunities

## Key benefits

People with a learning disability are not excluded or marginalised from health and social care services.

## Stockport Family

### 0-25 Special Educational Needs and Disabilities (SEND) Reform

Review and re-design of a number of services for young people with SEND from birth to 25 years old, in line with national reforms. This will include transport, early years childminding and education psychology.

New services for Early Years and Education Psychology will be in place from April 2016.

Personal Budgets will be extended to include a range of travel options and support from September.

Whole-school transport contracts will be in place from April 2017.

Greater choice and independence for children and young people with SEND, their parents/carers and families in meeting their transportation and support needs.

A sustainable budget to support children and young people with SEND up to the age of 25.

### **Stockport Family**

Establishing a single, fully integrated Stockport Family Service that provides the highest quality support to Stockport's most vulnerable children and families.

New service launched from April 2016, with local teams in place.

New digital services available by the end of 2016.

By March 2017, around 1300 staff will be trained in the new family-centred approach.

More families get support, helping improve family and child outcomes, and reducing escalation of cases.

Better outcomes will include;

- Fewer child protection plans
- Improved school attendance
- More young people in education, employment or work based training
- Fewer young people involved in crime
- Fewer teenage pregnancies

## **Other key activities and projects which will contribute to this outcome during 2016/17**

### **Mental health**

Work will focus on developing a formal arrangement with Pennine Care NHS Foundation Trust to provide services for people experiencing and recovering from mental ill health.

### **Protecting vulnerable adults at risk**

Supporting the Safeguarding Adults Board to ensure that a comprehensive safeguarding service is working effectively. Using information to improve services and identify vulnerable adults through a multi-agency approach.

### **Looked After Children and Care leavers**

Improving outcomes for looked after children and care leavers, and ensuring they have a strong voice in the design and delivery of services.

### **Implementing national SEND 0-25 reforms**

implementation and monitoring of the SEND reforms, aligned with the development of Stockport Family.

## 3. Stockport benefits from a thriving economy

### What does this mean?

Stockport plays a key role in the economy of Greater Manchester, and many residents both benefit from and help create a thriving local economy. The Borough though still has pockets of above-average deprivation, where better skills and training are needed to reverse long-term unemployment and the impact this can have on wider social issues.

Achieving this outcome also means making the right investments across the Borough, but particularly to help our Town Centre fulfil its potential to be the best in south Greater Manchester.

### What's the Council's role?

The Council is the primary custodian of and the main advocate for Stockport. We want to create an environment that attracts businesses to invest in the Borough. This requires the right infrastructure, the right policies to manage the environment, and strong partnership working with business leaders. We fulfil this role through

- Our role as a regulator
- Helping to shape residents' access to skills and training
- Setting the strategy for growth in the Borough and making targeted investments where the market fails to act

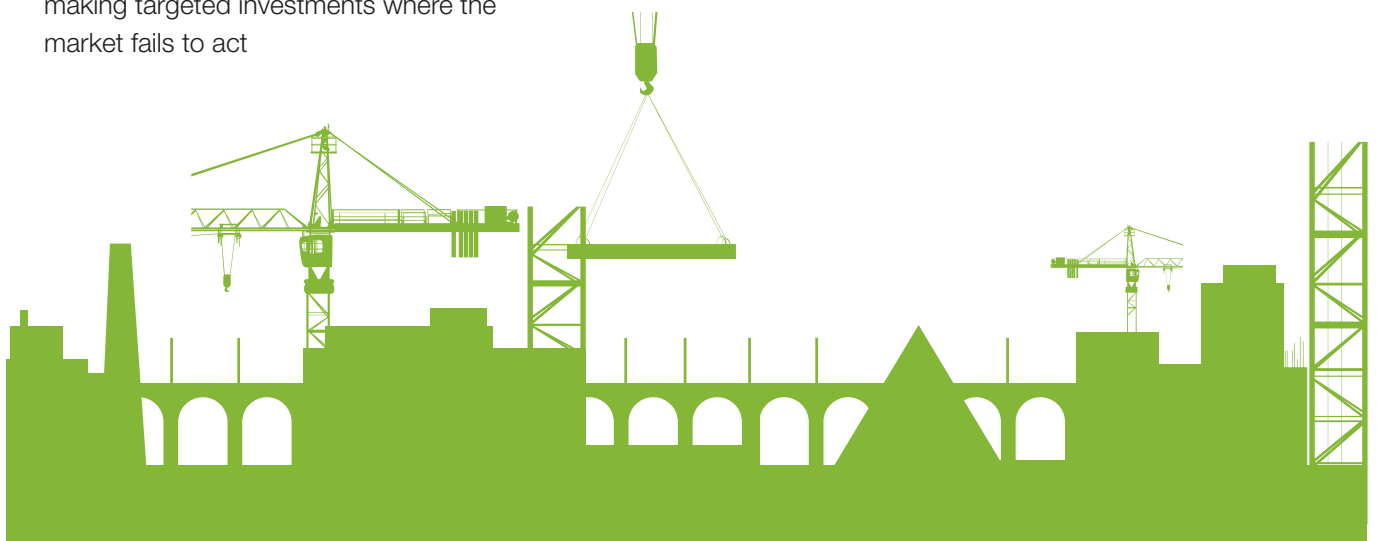
### What are we aiming to achieve?

Working with other public services to deliver our priorities, by 2020 we aim to ensure that;

- Economic activity in Stockport will have grown at or above the GM average
- Unemployment will remain lower than the national average, and will be lower in our poorest areas than in similar areas elsewhere

### What has been achieved in the last 12 months?

- Employment rates are continuing to rise, with fewer people out of work in the most deprived areas of the borough.
- Investment in growth can be evidenced by a number of major schemes starting to take shape, including the A6 to Manchester Airport Relief Road, new housing at Woodford, the Redrock leisure development and Stockport Exchange.
- Employment and training opportunities from these developments are being promoted, bringing more business into the borough with an increase in commercial sales, lettings and re-locations.



## Our delivery priorities for 2016/17 to help ensure Stockport benefits from a thriving economy

### Delivery programme and description

### Milestones for 2016/17

### Key benefits

#### New Delivery Models

##### Stockport Market

A new approach to the management, delivery and brand identity of Stockport Market. This will recognise the reduced occupancy of the outdoor market, and increased usage of the indoor market halls for special events.

This is linked to the investment programme to rejuvenate Stockport's historic Market Place and Underbanks area.



New staffing structure in place from April 2016.

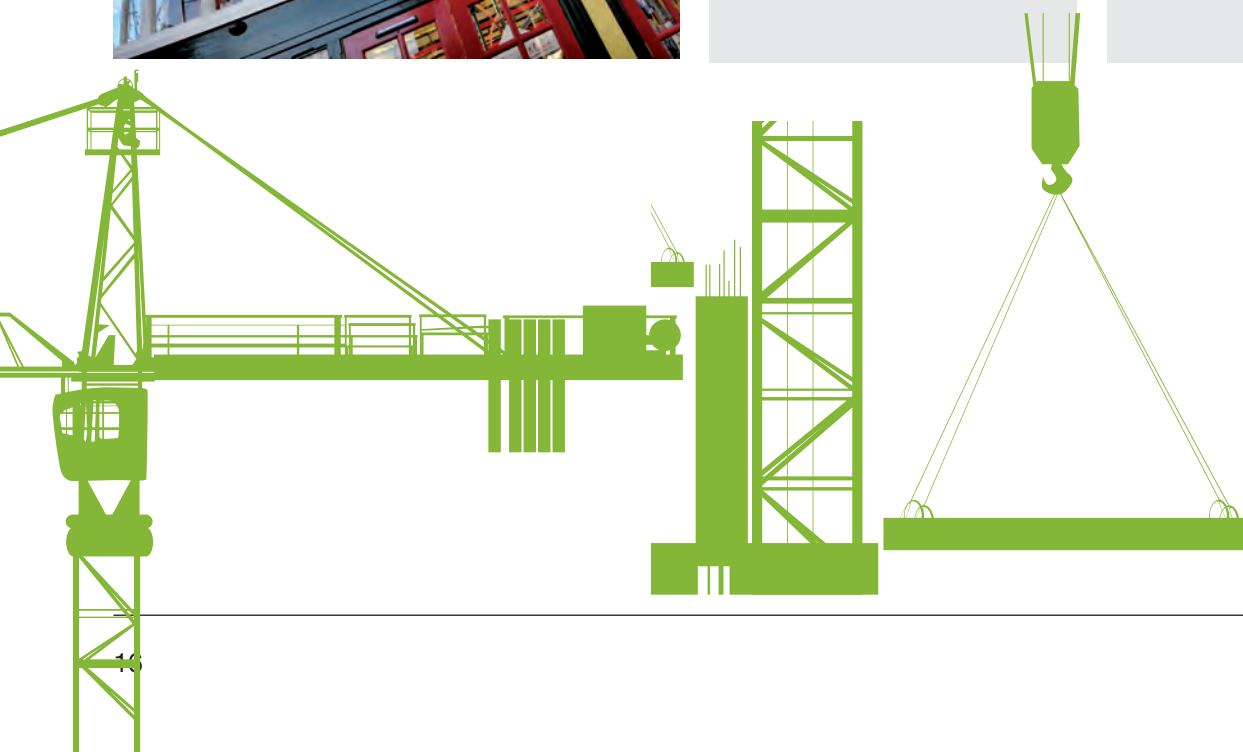
By the end of 2016, the new service will be in place.

Public consultation will be carried out during 2016 regarding Stockport's alternative market offer.

Long term viability of Stockport Market is secured and financially sustainable.

Current indoor and outdoor market provision becomes a vibrant hub for independent retailers, creative industries and specialist food and drink outlets.

More visitors to the markets, and new businesses attracted to the Markets and Underbanks area.



Delivery programme and description	Milestones for 2016/17	Key benefits
<b>Investing in Growth Capital Strategy</b>		
<b>Stockport Exchange</b> A mixed-use development with high quality office space, a hotel, shops and public space.	Phase 2 (Office Building and Hotel) is expected to be complete by March 2017	An additional 4,475 full time jobs created following completion of both phases
<b>Redrock</b> A leisure and retail development, including multi-screen cinema, restaurants, shops and car parking.	Start on site expected early 2016  Estimated completion by spring 2017	A further 300 full time jobs created
<b>Get Digital Faster</b> A regional programme to roll out optical fibre broadband to homes and businesses across the borough.	On schedule to deliver around 595 additional cabinets by March 2017	High-speed internet access delivered to 45,000 more homes and businesses
<b>Aurora Stockport</b> A light industrial estate on the former Gorsey Bank site, a key employment area.	Scheduled completion date April 2017	Creation of an estimated 240 jobs



## Other key activities and projects which will contribute to this outcome during 2016/17

### **Working Well**

This Greater Manchester programme will provide Employment and Support Allowance claimants who have not found employment through the government's Work Programme scheme with individually-tailored packages of support to help them move into employment.

### **Employment Premium Scheme**

This will provide financial support to unemployed people who require extra help to move into stable employment with a particular focus on the Council's Neighbourhood Management areas and Stockport Homes tenants. After a successful pilot, the scheme is being rolled out across the Borough.

### **Markets & Underbanks Regeneration**

A £7 million investment programme to attract new businesses, events, and visitors to the historic Marketplace and Underbanks part of the Town Centre. This will help to unlock the potential of currently vacant buildings and strengthen the area's unique offer.

### **GM Spatial Framework**

The Greater Manchester Spatial Framework will ensure that GM has an appropriate supply of land for housing and employment use that can support the city region's economic ambitions.









## 4. Stockport is a place people want to live

### What does this mean?

Situated between the Peak District, the Cheshire Plain and the UK's fastest growing city, Stockport is one of the most attractive places to live in Greater Manchester.

People will want to continue to live in some parts of the Borough only if the challenges brought by prosperity can be managed; in other places this outcome will only be achieved if there is investment to build more sustainable communities.

### What's the Council's role?

As the primary custodian of the Borough, the Council will play a leading role, to:

- Ensure neighbourhoods are well maintained and considered attractive
- Manage the Borough's waste, and continue to facilitate and encourage residents' outstanding rate of recycling
- To plan for the development of sustainable places, with a mixture of housing
- To lead local efforts to reduce carbon emissions, including driving the market towards energy efficiency
- To ensure our local transport infrastructure enables people to get to work, to access services, local facilities and each other

### What are we aiming to achieve?

Working with other public services to deliver our priorities, by 2020 we aim to ensure that;

- People will be satisfied with their local area as a place to live
- There will be more housing, with growth across all types and tenures

### What has been achieved in the last 12 months?

- A range of housing schemes are being built to increase the amount of homes available for local people.
- Construction of two major transport schemes has begun; the A6 to Manchester Airport Relief Road and the Town Centre Access Package.
- Further schemes are planned to ease congestion and promote sustainable transport, making Stockport more cycle-friendly.
- Recycling rates continue to be amongst the highest in the country, and further improvements are being made to encourage more residents to reduce, re-use and recycle their waste.









## Our delivery priorities for 2016/17 to help ensure Stockport remains a place people want to live

Delivery programme and description	Milestones for 2016/17	Key benefits
<b>New Delivery Models</b>		
<p><b>Museums and Cultural Attractions</b></p> <p>Safeguarding Stockport's cultural and heritage assets through establishing a new delivery model to increase income whilst enabling greater volunteering and community involvement.</p>	<p>From April 2016, a short term staffing model will be in place to support the Bramhall Hall Heritage Lottery Fund Project</p> <p>A further review of staffing will take place early 2017, with the estimated completion of the Bramall Hall project by March 2017</p> <p>A new structure will be in place for the museum service from April 2017.</p>	<p>Visitors are attracted to Stockport and residents are encouraged to explore their town's heritage</p> <p>The museum service is financially sustainable.</p>
<p><b>Highways and Engineering</b></p> <p>Developing a shared service for highways with two other Greater Manchester councils, alongside Transport for Greater Manchester (TfGM). This will be supported by re-structured service to deliver a more co-ordinated and robust way of maintaining and improving the network in the future.</p>	<p>TfGM final shared service structure released by April 2016, with new staffing structure for Council in place.</p> <p>Approval sought for final proposals for new services by June 2016</p> <p>The new shared service will go live during 2017/18 within 9 months of a final decision.</p>	<p>Improved resilience and continuity of service across Stockport</p> <p>Improved overall service provision through greater collaborative working</p>

Delivery programme and description	Milestones for 2016/17	Key benefits
<b>Public Realm and SSK Operating Model</b> Efficiencies across a range of services, including highway maintenance, street cleaning, grounds maintenance, parks and refuse collection. Ensuring minimal impact on front-line services and the appearance of the public realm.	Employee consultation on new arrangements within SSK by April 2016  New services in place by summer 2016.	High quality services continue to be provided at reduced costs.
<b>Investing in Growth Capital Strategy</b>		
<b>A6 to Manchester Airport Relief Road</b> A multi-modal transport improvement strategy.	Completion bridge over Buxton rail line expected Easter 2016  Scheduled completion by Autumn 2017	Improved connectivity  Reduced levels of local congestion  Local employment and business opportunities are within easy reach for all.
<b>Town Centre Access Plan</b> A planned development improving access to and around Stockport town centre, and reduce congestion.	Work on Heaton Lane roundabout started Jan 2016.  Scheduled completion by 2019	Reduced congestion within Stockport and easier travel between town centre areas, particularly caused by the A6 and M60.
<b>Stockport Interchange</b> A planned development linking the town centre bus and train stations. This will be crucial to supporting the on-going development of the Town Centre.	Work is due to begin in late 2016, with completion expected by 2018.	Improved access across Stockport by public transport.
<b>Covent Garden Village</b> A mixed-tenure housing scheme on the edge of Stockport Town Centre.	Expected start on site by June 2016 - Stockport Homes to deliver 17 new homes, mainly for shared ownership.	Over 200 new housing units to be delivered  Around 70 full-time jobs created

## Other key activities and projects which will contribute to this outcome during 2016/17

### **Housing Needs Assessment**

This provides a detailed snapshot of Stockport's current housing market in a way that reflects the housing need arising from the Borough's demographic and economic characteristics.

### **GM Transport Strategy**

A vision for a Greater Manchester transport network for the period to 2040 that will support the connectivity requirements arising from growth across GM.



## 5. Communities in Stockport are safe and resilient

### What does this mean?

Social relationships help people feel safe and give them the confidence to cope with change. We want to communities in Stockport to care for each other and to use the resources they have collectively and as individuals to meet daily challenges.

A safe, resilient community is one in which democracy thrives and people understand the impact of their decisions on others.

### What's the Council's role?

This outcome unites and underpins our other strategic ambitions. It can only be delivered when families, businesses and public agencies pull together to address issues specific to each local community. However, there are key roles the Council can play, including

- All Elected Councillors providing strong community leadership and an accountable voice for each locality
- Working with residents and the Police to make communities safer and to reduce anti-social behaviour
- Using our resources to enable and promote social action
- Enabling people to be more involved in their communities

### What are we aiming to achieve?

Working with other public services to deliver our priorities, by 2020 we aim to ensure that;

- There will be fewer victims of crime
- People will feel safe
- People will be influencing decisions about their area

### What has been achieved in the last 12 months?

- Crime levels in Stockport continue to be significantly below the regional average, with reductions across some types of crime.
- A recent survey shows that residents feel safer than ever in their local area during the day and after dark.
- A number of joint campaigns with the Police, Stockport Homes and the Youth Offending Team has helped reduce anti-social behaviour over the summer months and raise awareness of crime prevention.
- Local residents continue to be supported in staging a range of events during the year across our priority neighbourhoods, themed around issues such as financial resilience and healthy lifestyles.





## Our delivery priorities in 2016/17 to help ensure communities in Stockport are safe and resilient

Delivery programme and description	Milestones for 2016/17	Key benefits
<p><b>New Delivery Models</b></p> <p><b>Public Safety and Protection Service</b> Joining up statutory and regulatory services that deal with the wide range of nuisance and anti-social behaviour. Reviewing the way residents can be protected from harm caused by a small minority and unlawful or unsafe trading practices. This will include existing Public Protection and Community Safety services.</p>	<p>The new service and staffing structure will be in place from April 2016</p> <p>Over summer 2016, new digital services will be launched to improve customer information, providing a more joined up and accessible service</p>	<p>A more responsive service, helping people feel safer in their own homes and neighbourhoods.</p> <p>Improved service provision and business processes, along with reduced costs.</p> <p>More joined-up services, with opportunity for further integration across Council, police, fire and health.</p>
<p><b>Library Management Efficiencies</b> Re-structure of the management of library services, ensuring the best use of latest technology and digital solutions, along with reduced costs. Actively engaging with local people to continue to enhance the lives of residents.</p>	<p>Following a programme of consultation and engagement, a new Strategy will be agreed for implementation by March 2017.</p> <p>This will be supported by a detailed implementation plan</p>	<p>A modern, digital service, with adequate space relevant for the local community and easily accessible for all.</p> <p>Improved use of services, especially amongst vulnerable groups and individuals</p> <p>More community involvement in service design and delivery</p> <p>A wider and more diverse range of services</p>

### Delivery programme and description

#### Neighbourhood Management

Continued investment to work with the most deprived people and places in the Borough. This will involve a new approach concentrated on specific priority issues.

### Milestones for 2016/17

The new service will start to be put in place from April 2016.

New projects, in line with shared priorities, will begin to deliver by May 2016.

A review of the benefits of the new service will be carried out in late 2017.

### Key benefits

Improvement in outcomes over time.

More people engaging in focussed activity on specific issues.

Service delivery will be more effective and impact will be more sustainable.

### Other key activities and projects which will contribute to this outcome during 2016/17

#### Safer Stockport Partnership Plan

This will be refreshed to reflect ongoing priorities, supporting the Borough Plan and the Police and Crime Commissioner's priorities.

#### Domestic Abuse Strategy

A range of partnership projects to raise awareness of and tackle domestic abuse. This will include increasing the confidence of victims to report incidents and working with perpetrators of domestic abuse to confront attitudes and behaviours.

#### School Improvement

Focusing on raising standards in schools, addressing the gap in attainment between different groups of pupils, and reducing exclusions.

#### Raising the Participation Age

Implementation of the 16-19 Participation Plan will provide a range of options for young people to develop their skills and employability.

#### Schools organisation and commissioning of school places

Admissions, appeals, schools organisation and the schools capital programme will be reviewed to ensure the Council's statutory duty to provide sufficient school places continues to be met.

# Enabling and supporting change

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## Digital By Design

We have committed a significant investment to support the Investing in Stockport programme by enabling a step-change in our digital capability. The Digital by Design programme will modernise a range of Council services so that people can find the right information more quickly, track applications and assessments, communicate with services, engage with others in their community, report issues, and book, request and pay for services online.

The first areas to benefit from this investment are being rolled out from January 2016, including improvements to the Fred Perry House reception area. Staff will be trained to help assist residents in using digital services, along with improved online information, advice and guidance.

## Locality Working

Working more closely with local places and communities is a fundamental theme running through all aspects of Investing in Stockport. It informs changes in the physical location of teams, management arrangements and professional practice across a range of services, particularly those within the Stockport Family and Stockport Together programmes.

To support this shift we have developed the Locality Working programme, which aims to develop a new relationship between local people, businesses, communities, and voluntary and public sector agencies to shape the delivery of services in a neighbourhood.

There are three themes to this programme:

- Supporting community organisations to maximise their potential
- Engaging communities in public service design, prioritisation and delivery
- A locality approach to land, property use and development.

Local community conversations are being initiated in Marple and Werneth, Cheadle and Reddish to explore the different ways we can work together.

## Corporate and Support Services (CSS)

These services are essential to leading, implementing and supporting the new ways of working that will help deliver our five key outcomes. CSS activities range from the provision of vital day to day administrative support to front line workers through to the production of key policies and strategies that guide the Council.

The Investing in Stockport Programme Office, which support our approach to planning and driving growth and public service reform, will continue to evolve to meet the Council and Partners' needs over the coming years.







## Delivery programme and description

## Milestones for 2016/17

## Key benefits

### Enabling Projects

#### Digital by Design

Significant investment of one-off resources to modernise a range of Council services with a focus on provision of information, customer contact, on line self-service, engagement with communities and the ability to create a more joined-up view of our customers in the future. This will enable and support change across the wider IIS programme.

Improvements to the Fred Perry House Reception area will be in place by early 2016, along with improvements to the Council website, including further rollout of LiveChat (internal and external) and an increased number of on-line transactional forms

By summer 2016, a new Council website will be launched including a customer portal. New digital services will also be launched for Stockport Family and Stockport Together to improve mobile working, data sharing and analysis. Assisted Digital services will also be available.

Examples of 'customer journeys' will be available on line key services, along with improved data sharing capabilities by early 2017.

Greatly improved customer experience, including ensuring all those that need support get it

Supporting delivery of the Investing in Stockport programme

A digital operating model that provides a platform for further reform and efficiency to help meet the challenges of future years.



## Delivery programme and description

### Locality Working

A new approach to providing public services in neighbourhoods to reduce demand and deliver better outcomes. This involves local people establishing priorities and exploring new ways of working together to deliver services, looking at spending on public services as a whole within localities. It includes existing integration underway through the Stockport Together and Stockport Family programmes.

### Corporate and Support Services (CSS)

Identification of savings, whilst ensuring CSS can contribute to achieving priorities. Includes a review of management arrangements along with wider business and process improvements, identifying further trading opportunities, and an increased focus on effectiveness and performance.

## Milestones for 2016/17

The first phase of this work is a review of public buildings in different localities, along with the development Community Sector 'hubs' from 2016.

Delivery programmes will also be working towards specific Locality Working objectives, including;

- Stockport Family -Stepping Hill and Victoria Locality Team co-located by Summer 2016.
- Further roll out of integrated Adults Health and Social Care locality teams by the end of 2016.

A number of reviews focused on internal processes are due to be completed by April 2016. These include;

- Registrars service
- Planning fees
- Printing and copying facilities
- Deprivation of Liberty Standards in social care

Employee consultation will on resulting proposals will then be carried out during the summer, with longer-term actions for improvement and growth implemented from September.

Further consultation and engagement will take place later in 2016 ahead of final proposals being included for 2017/18.

## Key benefits

Increased citizen involvement in locality planning and prioritisation

Local skills and knowledge are utilised.

A defined role for councillors as community champions.

A more agile and responsive organisation.

Increased satisfaction from greater involvement for both citizens and public sector staff.

Reduced spend on CSS through streamlined processes

Reduced demand across CSS and more self-service channels

Increased income from traded services

Use of Business Intelligence and resource planning to identify and deliver measurable improvements

Reduced spend on estates and asset management through new delivery model.

Improved contract management and commissioning to ensure best value



## Other key activities and projects which will contribute to enabling and supporting change during 2016/17

### **Medium Term Financial Plan**

Ensuring that the Council can balance its budgets and manage its investments, and that sufficient resources are available to continue to deliver local priorities in the future. Understanding and planning for the impact of changes at a national and regional level.

### **Risk and Business Continuity**

Identifying risks to delivering services and outcomes in the future, and putting actions in place to address or limit these. Developing plans to limit the extent of any potential disruption of services to the public caused by events outside of the Council's direct control.

### **One Public Estate Programme**

A national programme aimed at ensuring that all public land and property assets can respond to the changing property needs of public services and support efforts to increase housing and employment growth.

### **Maximising collection of Council Tax and Business Rates**

With the Council needing to become ever more self-sufficient, maximising collection rates will help ensure that the public continue to receive high quality services. Business growth will be particularly important, given the move towards retention of business rates.





# Measuring our impact on Outcomes

Detailed agreements will be made by Executive Councillors that set out the priorities, risks and resources that will contribute to these outcomes under each portfolio.

These agreements will include clear measures that allow Elected Councillors and residents to monitor both service performance and the steps taken to change the organisation so that it can continue to deliver against outcomes in the future. Many of these measures will be based on the 'key benefits' set out in against the outcomes above, along with reporting progress in achieving the milestones identified .

We will report on these measures and milestones on a quarterly basis through our transparent Performances and Resources system, including direct commentary from the Leader of the Council. These quarterly reports set out how we have performed against our priorities, used our resources and managed risk, and which Executive Councillor is accountable.

**[www.stockport.gov.uk/performance](http://www.stockport.gov.uk/performance)**

We will also continue to publish a range of detailed data sets and other information as part of our drive for greater transparency.

**[www.stockport.gov.uk/transparency](http://www.stockport.gov.uk/transparency)**



# Ensuring clear accountability

These responsibilities are structured around the Investing in Stockport Outcomes set out in this Plan, with responsibility for specific services and budgets as shown by the table below;

Outcome	Portfolio Name	Services responsible for
All outcomes	Leader (Policy, Reform & Finance)	Policy and Performance / Public Service Reform and Partnership / Budget Overview / AGMA and CA.
	Deputy Leader (Support and Governance)	Corporate and Support Services (Redesign Functions) / Revenues and Benefits / Contact Centre / Elections / STAR Procurement
People are able to make positive choices and be independent	Independence and Wellbeing	Public Health / Advice and Guidance / Home to School Transport and Travel Passes / Health and Wellbeing / Adult Education / Links with NHS commissioners and providers
People who need support get it	Supporting Adults	Learning Disability Services / Older People's Services / Young Adults Services / Other Client Groups / Supporting People
	Supporting Children	Fostering and Adoption / Children's Social Work Teams / Foster Care and Residential Placements / Services for Young People / Children with a Disability / Children's Centres / Early Intervention Services / Social Care Management / SEN Support Services and Psychology / Safeguarding
Stockport benefits from a thriving economy	Thriving Economy	Economic Development and Regeneration / Strategic Housing / Markets / Planning
Stockport is a place people want to live	Supporting Places	Waste Collection / Street Cleaning / Highways Maintenance / Parks and Open Spaces / Street Lighting / Environmental Health and Trading Standards / Building Control / Leisure Facilities / Museums and Arts / Transport Network Development
Communities in Stockport are safe and resilient	Safe and Resilient communities	Community Safety / Neighbourhood Management / Youth Offending / Libraries / School Improvement / School Organisation and Capital Programme

# Have your say

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Once again, we have published and consulted on detailed business cases for our 2016/17 delivery plan in Autumn 2015. The wide range of responses received have informed our final plans, and we remain keen to consult residents, businesses, partners and other stakeholders on our future plans.

The vision set out in this Council Plan and the Borough Plan is also an invitation to all interested parties to get involved, ensure their voices and concerns are heard and help shape the future of the Borough. For its part, the Council and other public service partners will provide opportunities to enable individuals to get involved and engaged with change within Stockport.

The Council and Borough Plans also form the starting point for conversations with local communities about how these priorities can best be delivered within their locality. The Investing in Communities programme builds on the Council's Locality Working model, along with the range of conversations already underway. This also provides an opportunity to help shape future Planning Policy for localities and inform the Council's Core Strategy and GM Spatial Framework.

## Inclusive Communities

The Council is also leading on the development of a partnership approach to promoting inclusion across all Stockport's diverse neighbourhoods and communities. We are committed to exploring and understanding the issues that affect different areas, and working with local people to develop sustainable solutions. This will include factors such as the quality of local schools, the availability of affordable housing, access to training and employment opportunities, and reducing crime and anti-social behaviour.

In order to deliver this, we have created a new Inclusion Service. This will build upon the knowledge and skills across neighbourhood management services in order to provide a flexible and intelligent approach to understanding and tackling deprivation.

You can find out more about the challenges we face and let us know what you think about the approach we are taking by checking our our dedicated web page;

**[www.stockport.gov.uk/investinginstockport](http://www.stockport.gov.uk/investinginstockport)**

This is an on-going dialogue, and the Council continues to engage with local residents, businesses and other stakeholders to ensure their voices and concerns are heard.



An interpreting service is available, if you need help with this information.

Please telephone Stockport Interpreting Unit on 0161 477 9000. Email: [eds.admin@stockport.gov.uk](mailto:eds.admin@stockport.gov.uk)

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**STOCKPORT**  
METROPOLITAN BOROUGH COUNCIL

**STOCKPORT COUNCIL PLAN 2016/17**  
**INVESTING IN STOCKPORT**

<b>Title:</b> <b>Council Plan 2016/17</b>	<b>Date:</b> January 2016
	<b>Stage:</b> Draft
	<b>Service Area:</b> Corporate and Support Services
	<b>Lead Officer:</b> Steve Skelton

#### **Stage 1: Do you need to complete an Equality Impact Assessment (EIA)?**

*Not all policies will require an EIA: these key questions will help you to decide whether you need to conduct an EIA.*

Yes. The Council Plan refresh for 2016/17 continues to set the strategic direction for the Council to support the delivery of its key priorities and outcomes and as such requires an EIA.

The Council Plan is reviewed and refreshed on an annual basis, therefore this assessment builds upon previous Council Plan EIAs. It should also be considered in conjunction with the EIA produced for the 2016/17 Investing in Stockport (IIS) programme, approved by the Executive on 16 December 2015<sup>1</sup>, along with the EIA produced for the Medium Term Financial Plan being considered by the Budget Council Meeting.

It is not within the scope of this EIA to evaluate the potential equality implications that specific proposals within the IIS programme and elsewhere may have on residents and the Council's workforce. Individual EIAs for each IIS proposal were included in Outline Business Cases published with the Executive report in December 2015, whilst further proposals and activity will be assessed on a case by case basis.

The scope of this EIA includes;

- The process undertaken to develop the Council Plan.
- The impact of the strategic direction and priorities of the Council Plan (including resource allocation) on residents, service users and the Council's workforce

#### **Stage 2: What do you know?**

*An EIA should be based upon robust evidence. This stage will guide you through potential sources of information and how to interpret it. Understanding the current context is a key stage in all policy making and planning.*

The process undertaken to develop the Council Plan:

The 2015/16 Council Plan was developed alongside the Investing in Stockport proposals and single outcomes framework. The evidence base and consultation process for 2016/17 is therefore reflected in the over-arching EIA for the IIS Programme and Medium Term Financial Plan referred to above. This revised plan will be a key strategic mechanism for delivering against the IIS outcomes.

The following mechanisms have been put in place to ensure robust equality assessments across key projects referenced within the Council Plan.

<sup>1</sup> Available at

<http://democracy.stockport.gov.uk/documents/s85554/Investing%20in%20Stockport%20-%20Executive%20Response%20Dec%2015%20-%20Report.pdf> - Appendix 6 (p43)

- Project Managers (from the CSS Reform Team) and Directorate equality representatives have been identified to provide service specific support for Heads of Service / Project Leads developing EIAs for each IIS Project.
- The Corporate Strategy and Performance Team have provided advice and guidance and quality checked the most complex EIAs.
- Review of all draft business cases and their Equality Impact Assessments by colleagues within Legal Services and Internal Audit.

In addition, an extensive programme of consultation has been carried out to inform the development of the specific IIS proposals, as well as wider consultation relating to the IIS programme as a whole. A range of methodologies and communications were used in order to attract engagement from a wide range of groups.

Those consulted included scrutiny committees, residents, service users, partners, employees and trade unions; and focus groups were held with the general public, partners and service users. Targeted consultation with people identified as being affected by specific service changes has also been carried out.

Consultation reports summarising the key consultation findings have been prepared for the individual proposals and the overall IIS Programme. The findings have informed the on-going development of the proposals and individual EIAs.

#### Potential impact on residents / service users

The Council has a range of data which it uses to understand the demographics and needs of the population, including: -

- Census demographic data
- Index of Multiple Deprivation
- Joint Strategic Needs Assessment
- Ethnic diversity service data
- Performance data
- Service user profile data (including data collected by providers of commissioned services)
- Financial data
- Pilot projects
- Feedback from complaints

This data shows the following key demographic trends: -

- Stockport has a predominantly white population, accounting for 92% of the Borough's population. However the Borough is becoming more ethnically diverse with increasing numbers of people identifying with minority ethnic groups in the 2011 Census. The most ethnically diverse age group in the Borough is the 0-15 age group where just over 15%

are from BME groups.

- Though not one of the statutory 'protected characteristics', socio-economic inequalities remain a key issue in the Borough. Analysis of deprivation and poverty within Stockport identifies that socio-economic status has links with other protected characteristics such as gender (particularly female), age (young and older people), and disability (across all spectrums).
- The Borough has an ageing population and projections suggest that by 2019 there will be an additional 9,200 people in Stockport aged 65+. However substantial residential developments due to be built over the next few years, including provision for affordable homes, are aimed at younger people and families and may consequently impact on demographic trends.
- Based on national estimates of prevalence, it is estimated that approximately 2.8% of the Borough's adult population have a learning disability and 8.6% of the adult population have a disability that 'limits their day-to-day activities a lot'; meanwhile around 1.2% of the Borough's children and young people have a disability.

The IIS proposals involve service changes that are likely to have an impact on some of the Borough's equality groups. It is anticipated that this impact will be largely positive, particularly through more co-ordinated and localised delivery of services. There may be an impact on some groups with low or moderate needs as services change, but the intention is that a preventative approach - for example on provision of information, advice and guidance - will mitigate this. The groups most likely to be affected by the IIS proposals are;

*Disability* – a number of the proposals identified within 'Plan C' (the second business case appended to the Health and Social Care report) have a potential cumulative impact on people with a disability. This follows proposals finalised last year which are being implemented in relation to new service delivery models for service users with disabilities (Preventative Commissioning and Learning Disability Review).

*Age* – Integrated Health and Social Care proposals may lead to changes to service delivery models for older people. Similarly, proposals outlined within Stockport Family are anticipated to lead to changes to service delivery models for children and families. Meanwhile proposals to reform SEN Transport will impact most heavily on 5-25 year olds with a disability.

*Socio-economic Status* – a number of the IIS proposals may impact on individuals in deprived areas or of low socio-economic status. This includes new service delivery models proposed within Neighbourhood Management, Locality Working, SEN Transport and Adult Social Care (integration and 'Plan C' proposals).

From the available information, it is not considered that there will be any



negative impact on the following equality groups: -

- Race
- Sexual Orientation
- Religion and Belief
- Pregnancy and Maternity
- Gender Reassignment

#### Potential impact on staff

All proposals will impact on the Council's employees be it through the introduction of new ways of working (Integration proposals within Children and Adults), potential staffing transfers (Highways and Engineering) or a reduction in posts (Stockport Family, Neighbourhood Management, Public Safety and Protection).

Based upon early headline analysis it is not expected that cumulatively these proposals will have a disproportionate impact on any one equality group. Initial data analysis has been conducted of staff in scope of these proposals and is included in the individual EIAs. However, detailed analysis will be undertaken as HR Business Cases are completed.

Initial analysis does show that there may be disproportionate impacts within specific projects, for example:

- The Stockport Family and Integrated Health and Social Care proposals will involve renegotiation of current job roles. Such service restructures may disproportionately impact on gender for example 80% of staff in scope of Integrated Health and Social Care proposals are female.
- The Markets, Museums and Cultural Attractions proposals outlines proposed reductions in posts (museums) and a redesign of staffing patterns (markets). The demographics of the two elements of the service are different with Markets having a largely male staffing base whilst Museums largely female staffing base.
- It is anticipated that there may be a disproportional socio-economic impact, as a number of staff in scope of the Plan C proposals are currently Scale 4 – SO2, specifically REaCH and Learning Disability Support Workers. Further specific details and mitigating actions will be included in the individual EIAs for these proposals.

Further analysis is required as proposals are developed and in/out of scope fully clarified to understand the implications for different groups of staff and any cumulative impact.

#### **Stage 2a: Further Data and Consultation**

*If you feel that the data and past consultation feedback you have is not sufficient to properly consider the impact before a decision is made then you may wish to supplement your evidence base with more data or further consultation. This should be proportionate to the scale of the decision and will depend on the gaps in your current understanding.*

A number of impacts have been identified through consultation with stakeholders in specific IIS proposals:

**0-25 SEND Reforms** – an impact on vulnerable young people and their carers in terms of the support they receive with SEN Transport was identified.

**Learning Disability Review** - Feedback was raised within the Healthwatch focus meeting about the application of the new transport policy and the impact on carers, specifically that this group were already under pressure to care for individuals with complex needs and that the proposals regarding transport were viewed as making it difficult for the carer to carry on. Respite care for carers was also raised as an issue.

**Neighbourhood Management** – consultation has raised concerns that some have for the level of support available for those living in Priority 1 areas if the teams are no longer based permanently within the locality.

**Public Realm/SSK** – Although not relevant to any one equality group there were concerns raised about this proposal in terms of the impact the reductions in service will have on the appearance of the Borough.

Cumulatively the consultation has highlighted the previously identified impact of Disability, Age and Socio-Economic Status from the proposals above. In addition to this, although not a protected characteristic, a disproportionate impact on Carers has been identified through the Health and Social Care, Learning Disability and 0-25 SEND Reforms proposals.

### **Stage 3: Results and Measures**

*As a result of what you have learned in Stage 2 what will you do to ensure that no group is unfairly and unlawfully impacted upon as a result of the proposed change(s)?*

As noted above, individual EIAs are being carried out for all IIS proposals. These EIAs will include more detail regarding impacts and specific monitoring arrangements and mitigation approaches where potential disproportionate equality impacts emerge during the course of consultations or option appraisals. These arrangements will ensure that no group is unfairly impacted upon by the implementation of the proposed service changes.

Further work will be carried out, including engagement with service users, to inform the development of proposals and if relevant to develop monitoring and mitigation arrangements as proposals are developed. In particular further consideration will be given in relation to the potential cumulative impact on the equality groups identified in Section 2 (disability, age / older people, and socio-economic status)

In addition to any further arrangements which will be determined in light of further analysis and consultation, the following measures are outlined as overall monitoring and mitigation arrangements for the Council Plan and IIS programme. These overarching arrangements are designed to ensure no equality group is unfairly affected by the cumulative impact of these plans.

**Robust monitoring arrangements** are being developed to assess the

equality impact of specific service changes (and where appropriate the impact of planned mitigating actions) as IIS proposals are implemented. Any emerging or widening inequalities will be identified at an early stage and, where appropriate, further mitigating action will be developed. In addition a robust Strategic Outcomes Framework has been developed to monitor the overall outcomes of the IIS Programme, this has been aligned with the Council's Performance and Resource Reporting arrangements (see below).

The Council's quarterly **Corporate and Portfolio Performance and Resource Reports** (CPRR and PPRRs) provide an overview of performance against the priority outcomes set out in the Council Plan. The PPRRs are aligned with IIS outcomes to provide the information decision makers need to monitor the overall outcomes of the IIS Programme. Where possible, performance indicators will be disaggregated by protected characteristic to ensure any emerging inequalities are identified.

A key element of these reports for 2016/17 will be the delivery of the Investing in Stockport programme. Individual IIS Projects are developing their own monitoring and evaluation arrangements, and progress will be summarised within the relevant Portfolio Reports. In many cases, there is ongoing dialogue with service users and representative groups to determine the detail of specific proposals.

Delivery of the Council's Revenue Budget, Capital Programme and savings programme is also monitored quarterly, ensuring that these are on track. The Corporate Risk Register has been merged with the IIS Programme Risks, and is also monitored to provide assurance that key risks are being identified and managed, avoiding negative impacts on specific groups.

The Council has developed its **Equality Objectives**, as directed by the Equality Act 2010, and is developing performance measures to support and monitor these objectives as part of the Council's wider P&R framework. This, alongside the other monitoring arrangements set out above, will further develop an understanding of any emerging equality issues.

#### **Stage 4: Decision Stage**

*Once your plan/policy is fully developed it will need to go through the correct scrutiny and approval channels: the EIA should be included as part of this*

This EIA will accompany the 2016/17 Council Plan through the approval stages listed below and will be placed on the Council's website alongside the Council Plan once a final decision has been made.

- CRMG Scrutiny Committee – 2 Feb 2016
- Executive Committee – 16 Feb 2016
- Budget Council Meeting (with MTFP Budget Proposals) – 3 Mar 2016

## **MEDIUM TERM FINANCIAL PLAN - FINANCIAL LANDSCAPES AND FORECAST 2016/17 TO 2020/21 (UPDATE FOLLOWING THE LOCAL GOVERNMENT FINANCE SETTLEMENT)**

### Report of the Corporate Director for Corporate and Support Services

#### **1 Introduction and Purpose of Report**

- 1.1 The purpose of this report is to update the medium term financial plan (MTFP) forecasts for the Council's finances for the period 2016/17 to 2020/21 taking account of the 2016/17 provisional local government finance settlement published on 17 December 2015. This report takes as its starting point the position set out in both the MTFP forecast and the 'Investing in Stockport: Executive Proposals' reports considered by the Executive at its meeting on 16 December 2015. In addition to £18.58m of ongoing cash limit reductions, these proposals included £4.667m of one-off revenue budget support approved at the Executive Meeting on 16 December 2015 including £4.212m of support for Adult Social Care, £0.025m for Stockport Family and £0.43m for Leisure Facilities.
- 1.2 As a result of the Executive's proposals, the remaining cumulative budget reduction requirements for the period 2016/17 to 2020/21 were as follows:

	<b>£000</b>
2016/17	(360)
2017/18	13,130
2018/19	30,123
2019/20	44,340
2020/21	58,532

#### **2 Local Government Finance Settlement**

##### Summary Position

- 2.1 On 17 December 2015, the Government published details of the provisional 2016/17 local government finance settlement. This year's settlement introduced some changes to the way in which each council's settlement is presented alongside some new concepts which are set out below. The settlement also reflected a new approach to sharing out Revenue Support Grant reductions that takes account of Council Tax Revenues as well as Settlement Funding Assessments. Headlines from the settlement included:
- The publication of indicative funding allocations through to 2019/20 that confirm significant reductions in Revenue Support Grant;
  - No offer of Council Tax Freeze Grant for 2016/17 (as in previous years) and the transfer (rolling in) of 2015/16 Council Tax Freeze Grant into Revenue Support Grant;



- The transfer into Revenue Support Grant of Care Act Funding, Lead Authority Flood Grant and Sustainable Urban Drainage Systems Funding;
- Allowing authorities to add a Social Care Precept to Council Tax bills in addition to a regular base increase up to a pre-determined referendum threshold. The effect of these changes permits councils to increase bills by up to 3.99% without triggering a referendum;
- Improved Better Care Fund Allocations commencing in 2017/18 that targets a greater level of support at Councils unable to raise sufficient funds through a 2% Social Care Precept;
- The offer of a four year settlement to councils that want one although specific details at this stage are still to be provided by CLG.

### Settlement Funding Assessment Adjustments

- 2.2 Settlement Funding Assessment comprises funding allocated through the settlement formula together with a number of 'rolled in' former specific grants including funding for the 2015/16 Council Tax Freeze and the 2014 Care Act. The funding formula is no longer updated for methodological or data changes and may not be reset until the year 2020 at the earliest. A breakdown of Stockport's Adjusted Settlement Funding Assessment for 2015/16 is shown in the table below.

	<b>£000</b>
2015/16 Settlement Funding Assessment	82,674
2015/16 Council Tax Freeze Grant	1,417
Care Act	982
Care Act Funding Reform	793
Lead Authority Flood Authority	27
Sustainable Urban Drainage Systems	9
Carbon Monoxide Fire Alarm Grant	1
<b>Adjusted 2015/16 Settlement Funding Assessment</b>	<b>85,903</b>

### Settlement Core Funding and Core Spending Power

- 2.3 The 2016/17 Settlement introduced two new concepts to support the distribution of grant reductions and to attempt to illustrate how local authority resources could increase over the spending review period.

#### *Settlement Core Funding*

- 2.4 A crucial yet unanticipated element of the settlement is the introduction of additional funding equalisation to take account of the ability of authorities to raise council tax locally. The Government has allocated central funding (Revenue Support Grant) in a manner that ensures councils delivering the same set of services receive the same percentage change in 'Settlement Core Funding' for those sets of services. Settlement Core Funding will, therefore, take into account the main resources available to councils, which for this purpose comprise:

- Council Tax Revenue at 2015/16 levels
- Settlement Funding Assessment (SFA), comprising:

- Estimated locally retained business rates income (referred to as baseline funding level under the rates retention scheme)
- Revenue Support Grant (RSG)

2.5 The percentage reduction in Settlement Core Funding applicable to Stockport will also apply to all other Metropolitan Districts. Percentage changes in each of the elements that comprise Settlement Core Funding are set out in the table below.

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Business Rates Baseline Funding Level	0.8%	2.0%	2.9%	3.2%
Revenue Support Grant	-33.3%	-38.9%	-40.7%	-68.8%
<b>Settlement Funding Assessment</b>	<b>-16.0%</b>	<b>-14.1%</b>	<b>-9.2%</b>	<b>-9.9%</b>
Council Tax Revenue (2015/16 Levels)	0.0%	0.0%	0.0%	0.0%
<b>Settlement Core Funding</b>	<b>-6.5%</b>	<b>-5.1%</b>	<b>-3.1%</b>	<b>-3.1%</b>

2.6 Although percentage reductions in Settlement Core Funding are the same for all Metropolitan Districts, Stockport is bearing a higher percentage reduction in SFA and RSG due to the level of Council Tax income Stockport collects relative to other metropolitan councils.

2.7 It should be noted that the figures presented above are disclosed on a like for like basis and include the 'rolling in' of funding set out in the table at paragraph 2.2.

2.8 Published allocations for Stockport for Settlement Core Funding, Settlement Funding Assessment and Revenue Support Grant are shown in the table below. The financial implications of the settlement for the Council's Medium Term Financial Plan are set out in sections 3 and 4 below.

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Business Rates Baseline Funding Level	43,852	44,714	46,033	47,504
Revenue Support Grant	28,289	17,277	10,240	3,191
<b>Settlement Funding Assessment</b>	<b>72,141</b>	<b>61,991</b>	<b>56,273</b>	<b>50,695</b>
Council Tax Revenue (2015/16 Levels)	125,037	125,037	125,037	125,037
<b>Settlement Core Funding</b>	<b>197,178</b>	<b>187,028</b>	<b>181,310</b>	<b>175,732</b>

### *Core Spending Power*

2.9 The government is using the term 'Core Spending Power' to illustrate what it believes to be the impact of the settlement on local government as a whole and on individual local authorities. The Government has defined Core Spending Power as Revenue Support Grant, Baseline Funding Level (obtained from retained business rates), New Homes Bonus Grant, and the local government element of the Improved Better Care Fund, as well as income from Council Tax.

2.10 Unlike Settlement Core Funding, the Council Tax figures included in Core Spending Power assume the tax base will grow in line with the local average for the period 2013/14 to 2015/16 and that councils with Social Care responsibilities will increase council tax by around 3.75% per annum in line with OBR forecasts for

the Consumer Prices Index (averaging 1.75% per annum) plus a further 2% per annum to fund a Social Care Precept to support increased Adult Social Care expenditure. The Government calculates that Core Spending Power in accordance with this definition will fall by an average 0.5% across England over the four year Spending Review period.

2.11 An analysis of Stockport's settlement indicates that its Core Spending Power will fall by 1.5% (£3.2m) by 2019/20. It is very important to note that this assumes that the Council will apply the social care precept each year and will also increase the core council tax (by 1.75% per annum on a growing tax base). Basing growth in council tax bases on a three year average has contributed to a wide variation in the Core Spending Power figures across different councils. In Greater Manchester for example, the reductions to 2020/21 range from 0.3% to 4.7%. Varying reductions in Core Spending Power across different councils are driven by:

- Differing performance on tax base growth for the period 2013/14 and 2015/16;
- Different starting points for Band D equivalent Council Tax;
- Varying allocations for Better Care Fund and New Homes Bonus funding.

2.12 Critics of this analysis argue that Core Spending Power does not provide an accurate picture of the local authority resource base or, therefore, the impact of the reductions in funding because:

- It does not include all non-ringfenced specific grants payable to local authorities (e.g. DfE Education Services Grant is excluded);
- Some of the figures are indicative only or are based on assumptions (for example in relation to council tax increases and growth);

2.13 Details of Stockport's Core Spending Power Calculation are shown in the table below.

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Settlement Funding Assessment	72,141	61,991	56,273	50,695
Council Tax Revenue *	130,527	136,918	143,760	151,090
Improved Better Care Fund			3,111	6,333
New Homes Bonus and Returned Funding	3,367	3,385	2,127	2,040
<b>Settlement Core Funding</b>	<b>206,035</b>	<b>202,294</b>	<b>205,271</b>	<b>210,158</b>
<i>* Includes Social Care Precept</i>	<i>2,527</i>	<i>5,238</i>	<i>8,161</i>	<i>11,318</i>

#### **Change over Spending Review period**

Stockport		-1.5%
England		-0.5%

#### Business Rates Retention

2.14 As part of the finance settlement the Department for Communities and Local Government (CLG) calculates a Business Rates Baseline for each local authority, based on national estimates for collectable Business Rates income. Half of this

estimate (the 'local' share) is then allocated to billing areas on the basis of proportionate shares which are based on the average level of Business Rates collected during the financial years 2010/11 and 2011/12. Where appropriate, a further 2% of a billing area's share (1% of all business rates collected locally) is allocated to the relevant Fire and Rescue Authority. For Stockport this produces the Business Rates Baselines shown in the table below.

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Stockport Business Rates Baseline	45,563	46,458	47,829	49,357
Tariff Payable to Central Govt.	1,711	1,744	1,796	1,853
Safety Net Level	40,563	41,361	42,581	43,942
Levy Rate	3.75p	3.75p	3.75p	3.75p

- 2.15 Stockport's Business Rates Baseline exceeds the Baseline Funding Level (set by the government) by £1.711m in 2016/17. This amount is known as a Tariff and has to be paid over to Central Government. If the Council collects a lower level of Business Rates than the baseline (adjusted for grants in lieu of Business Rates) then less funding is available to support the budget. However, those losses are capped at 92.5% of baseline funding level (£40.563m for 2016/17) below which the Government will make up the shortfall with a safety net payment.
- 2.16 Should the Council collect a higher level of Business Rates than the baseline (adjusted for grants in lieu of Business Rates) that is available to support the budget, a levy is payable to the Greater Manchester Business Rates pool on that growth. For Stockport, that levy is 2/3rds of 3.75 pence for every £1 of additional Business Rates growth retained locally.
- 2.17 As indicated in the 2016/17 Council Tax Base and Non-Domestic Rates Forecast report (considered at the Executive Meeting on 16 December 2015), Stockport will remain part of a Business Rates Pool that comprises all ten Greater Manchester districts plus Cheshire East Council and the Cheshire West and Chester Council. This will allow any levy generated from business rates growth (including Stockport's share referred to in paragraph 2.16) to be retained within the city region for reinvestment.

#### GM Growth Pilot

- 2.18 In the March 2015 Budget Statement, the Chancellor announced a pilot scheme that would permit the Greater Manchester and Cheshire East Council Business Rates Pool to retain 100% of growth in Business Rates beyond inflation (as measured by RPI) plus a stretch target of 0.5%. The baseline for calculating growth will be based on the 2015/16 original estimate for business rates revenue (as per Councils' NNDR 1 forms) together with a further adjustment for appeals. Members should note that the regulations necessary to give effect to the pilot are not yet on the statute book and the arrangements for sharing the proceeds of growth across districts and the Combined Authority have yet to be agreed. On that basis, these forecasts do not currently presume Stockport will retain any additional business rates revenue as a result of the proposed pilot scheme.



### Specific Grants

- 2.19 CLG have yet to publish a full and comprehensive list of all specific grants to be paid to local authorities in 2016/17. Indicative allocations for 2016/17 Education Services Grant and New Homes Bonus have been disclosed and are £3.357m and £3.209m respectively. However, the Council is still awaiting allocations for Public Health Grant and Independent Living Funding.

### *Better Care Fund*

- 2.20 In addition to the provision for a social care precept, the settlement confirms the introduction of additional funding through the Better Care Fund (BCF) as a specific grant. Nationally this will be worth £1.5bn by 2020/21 and will be phased in from 2017/18 (£105m).
- 2.21 The methodology for distributing this additional BCF funding has been designed to provide more resources to those authorities which benefit less from the additional council tax flexibility for social care. The BCF money will be allocated in such a way that, when combined with the money that would be raised from the social care precept, each council would receive its share of the combined national amount available (BCF plus council tax flexibility). It appears that authorities that do not raise the council tax for this purpose would still receive the BCF payment
- 2.22 Due to the relative strength of the local Council Tax base, this means Stockport will receive a lower level of BCF funding than many other metropolitan districts. Indeed, Stockport will not receive any additional BCF until 2018/19, on the basis that the social care precept would be sufficient in that year. However, the extra BCF resources for Stockport will amount to £3.1m in 2018/19 and £6.3m in 2020/21.

### Council Tax

- 2.23 There will be no freeze grant offered for 2016/17 and the referendum threshold is proposed to be 2%. In addition, social care authorities will be able to raise their council tax by an additional 2% provided that this 'social care precept' is spent on adult social care services. CLG will put arrangements in place that ensure councils prove they are spending monies raised through the social care precept on adult social care.
- 2.24 The figures disclosed later in this report (and in previous reports) continue to reflect the impact of a Council Tax freeze albeit without any offer of a freeze grant for the remainder or the Spending Review period beyond 2016/17 Should Council Tax be increased by the maximum level permitted without triggering a referendum (1.99% plus 2% for a Social Care Precept), that would generate around an additional £5m per annum in Council Tax Receipts.

## Other Announcements

### *Business Rates*

- 2.25 The Settlement contains some further information on the introduction of 100 per cent business rates retention, which the Government has promised by the end of the Parliament. The Government will be consulting on giving more responsibility to councils to support older people with care needs, including people who, under the current system, would be supported through Attendance Allowance. There will be protection for existing claimants and new responsibilities will be matched by the transfer of equivalent spending power. The Government will consult on the proposals, including what it describes as the right model of devolution and level of flexibility.

### *New Homes Bonus*

- 2.26 The Spending Review announced that the Government would consult on reforms to the New Homes Bonus, including ways to sharpen the incentive to reward communities for additional homes and release resources to help address pressures in adult social care services, with a preferred option for savings of at least £800m to be returned to local government to support adult social care. A technical consultation on these reforms was published alongside the provisional local government finance settlement. Provisional New Homes Bonus allocations for 2016/17 were announced alongside the provisional local government finance settlement, calculated using the same methodology as in 2015/16.

### *Flexible use of Capital Receipts*

- 2.27 Draft statutory guidance on the flexible use of capital receipts was published alongside the Settlement consultation. Under this guidance, councils will be able to use new capital receipts from April 2016 to March 2019 to pay for the revenue set up costs of projects that are designed to make revenue savings. It will be for individual local authorities to decide if a project qualifies. In order to qualify, councils will be required to prepare an annual efficiency strategy listing all qualifying projects and this strategy, and any variations to it, will need to be approved by full council.

### *Offer of a Four Year Settlement*

- 2.28 The Government will offer any council that wishes to take it up a four-year funding settlement to 2019/20. The Government is indicating a clear commitment to provide central funding allocations for each year of the Spending Review period, should councils choose to accept the offer and if they have published an efficiency plan. Indicative allocations are published alongside this year's provisional settlement and will be confirmed in the final settlement. In determining allocations for future years, there is an assumption the methodology outlined in this consultation will continue to be used. In practice, the final determination of the local government finance settlement for any given year cannot be made until calculations are completed taking account of the business rates multiplier, which is based on the Retail Price Index in September each year. The Government will also need to take account of future events such as the transfer of functions to local

government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

#### Impact of Settlement on the MTFP

- 2.29 Compared to the previous forecast reported on 16 December 2015, the finance settlement has resulted in a £2.9m reduction in the resources available to support the 2016/17 savings plan. The largest adjustments relate to the removal of a grant offer in relation to freezing Council Tax and Revenue Support Grant. The latter part of the Spending Review period also sees significant reductions in New Homes Bonus funding that are more than offset by improved BCF allocations. Significant adjustments in the latter part of the Spending Review period also result from the alignment of RPI increases for business rates to match those of the OBR. A breakdown of the variances to the previous forecast is shown in the following table:

<b>Changes since 16 December 2015</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Council Tax Freeze - No Grant Offer	1,417	2,834	4,251	5,668
Settlement Funding Assessment/RSG	1,402	2,718	2,307	2,576
New Homes Bonus	(105)	85	1,792	2,132
Business Rates RPI Assumptions	(6)	10	(451)	(1,058)
Improved Better Care Fund			(3,111)	(6,333)
Education Services Grant	198	168	108	60
<b>Increase in Budget Reduction Requirement</b>	<b>2,906</b>	<b>5,815</b>	<b>4,896</b>	<b>3,045</b>

#### Schools Finance Settlement

- 2.30 The schools finance settlement is set out in a separate report elsewhere on the agenda.

#### Housing Revenue Account (HRA) Budget and Rent Levels for 2016/17

- 2.31 Proposals in relation to the HRA Budget and Rent Levels for 2016/17 were considered in a separate report by the Executive Meeting on 5 January 2016 and at the Council Meeting on 28 January 2016.

### **3 2015/16 Forecast Revenue Outturn**

- 3.1 As reported in the Third Quarter Corporate Performance and Resources Report (elsewhere on the agenda), there is an overall forecast surplus of £1.242m, comprising £0.161m on cash limit budgets and some £1.081m against non-cash limits. It should be noted, however, that the Supporting Adults and Supporting Children portfolio are under pressure from placement demand and demographic pressures and may require support from contingencies held within Non-Cash Limits.

- 3.2 The Council is in the midst of delivering a major two year programme which aims to deliver permanent reductions in cash limit expenditure of around £34m. The 2015/16 savings programme, worth £15.5m, is on target to be delivered.
- 3.3 The Council's reserves and balances remain in a relatively healthy position, although it is clear that significant levels of one-off resources will be required to support the Council's MTFP in 2016/17. At this stage the level of general fund balances remains at £9.2m.

#### **4 2016/17 Updated Financial Forecast**

- 4.1 As was the case in December 2015 the Corporate Director, Corporate and Support Services has provided two updated forecasts; the first covering the financial year 2016/17 to tie in with the final year of the current Investing in Stockport programme and a second covering the following four years (see section 5 below). Each forecast is accompanied by a sensitivity analysis (included at Appendix One) showing the underpinning key variables and how they could change.
- 4.2 The MTFP approved by the Executive at the meeting on 16 December 2015 indicated resources of £5.027m would be available and utilised to support the 2016/17 MTFP on a one-off basis. The key financial assumptions underpinning the latest forecasts are set out below.

	<b>2016/17</b>
SMBC Council Tax (Excluding Social Care Precept)	0%
SMBC Council Tax - Social Care Precept	2.0%
Settlement Core Funding	-6.5%
Settlement Funding Assessment	-16.0%
Revenue Support Grant	-33.3%
Pay Award	1.0%
Employer's Pension Contribution	19.0%
Waste Authority Levy	9.9%
Combined Authority Levy	0.1%

#### Adjustments to Forecast since 16 December 2015

- 4.3 The following table summarises how the indicative revenue budget for 2016/17 has changed since the previous report.



	<b>2016/17 £000</b>
Available Resources as at 16 December 2015	(5,027)
One Off Budget Support (approved 16 December 2015)	4,667
	<b>(360)</b>
Local Government Finance Settlement	2,906
GMCA Transport Levy	(323)
Waste Disposal Authority Levy	338
Employers National Insurance	(119)
Superannuation	(57)
<b>Budget Reduction Requirement as at 16 February 2016</b>	<b>2,385</b>
<i>Reduction in Available Resources</i>	<i>2,745</i>

4.4 In addition to the impact of the finance settlement (£2.906m) explained at paragraph 2.29 above, the revised forecast includes the following adjustments:

- A £0.323m reduction in GMCA Transport Levy due to relative changes in population estimates across Greater Manchester districts;
- A £0.338m increase in Waste Disposal Authority Levy estimates reflecting the latest tonnage and recycling forecasts from participating districts;
- A saving of £0.119m arising from a recent review of the cost of addressing forthcoming pension reforms which will end contracting out for defined benefit pension schemes. The reforms will increase the Employers' National Insurance Contribution Rate from 10.4% to 13.8% for employees who are members of the Local Government Pension Scheme, the Teacher's Pension Scheme and the NHS Pension Scheme;
- A saving of £0.057m arising from a recent review of the cost of addressing a 0.7% increase in the superannuation rate from 18.3% to 19%.

4.5 A revised breakdown of the 2016/17 indicative cash limit budget across current portfolios is shown in the table below. A list of all budget adjustments from the 2015/16 position (reported elsewhere on the agenda) to the 2016/17 indicative budget position is shown at Appendix Two.

<b>Portfolio</b>	<b>2016/17 £000</b>
<b><u>Cash Limits</u></b>	
Independence and Wellbeing	19,139
Safe and Resilient Communities	8,778
Support and Governance	22,089
Supporting Adults	62,473
Supporting Children	22,329
Supporting Places	22,962
Thriving Economy	2,077
<b>Total (Cash Limits)</b>	<b>159,847</b>
Pay	985
Superannuation (Auto-Enrolment)	265
Price Inflation (incl. National Living Wage)	6,136
Demand Pressures	2,000
Non-Cash Limits	61,134
<b>TOTAL</b>	<b>230,367</b>

4.6 The above table includes contingencies for pay, price inflation and estimates for other similar pressures. As reported in section 2.5 of the 2015/16 Corporate Performance and Resources Report (elsewhere on the agenda) there are £3.2m of as yet unapplied contingencies from 2015/16 that form part of the figures disclosed in the above table.

4.7 These remaining contingencies (set aside as part of the 2015/16 revenue budget) may well be needed to deal with the Social Care placement pressures that form part of the Supporting Children portfolio as well as underlying pressures and risks in the Supporting Adults portfolio. While no further price inflation pressures are likely to emerge during the remainder of 2015/16 it is necessary to retain these amounts in base budgets to deal with requirements that will emerge during 2016/17, including those relating to the potential pooling of significant health and social care resources.

4.8 The table below summarises the latest overall budget forecasts for 2016/17. As identified in paragraph 4.3 above there is now a forecast savings requirement of £2.385m equivalent to 1.5% of indicative cash limits.

	<b>2016/17 £000</b>
<u>Resources</u>	
Stockport MBC Council Tax	126,709
Social Care Precept	2,534
Revenue Support Grant	28,289
Business Rates - District Share	45,038
Grants in Lieu of Business Rates	2,478
Grants in Lieu of Business Rates (15/16)	528
Central Education Services Grant	3,357
New Homes Bonus (Returned)	105
New Homes Bonus Grant	3,209
Public Health Grant	17,045
2015/16 Collection Fund Forecast Outturn	(1,310)
	<b>227,982</b>
<u>Expenditure</u>	
Cash Limits	159,847
Pay	985
Superannuation (Auto-Enrolment)	265
Price Inflation (Incl. National Living Wage)	6,136
Demand Pressures	2,000
Non-Cash Limits	61,134
	<b>230,367</b>
<b>Budget Reduction Requirement</b>	<b>2,385</b>

- 4.9 This reduction requirement of £2.385m will need to be addressed in order to present a balanced set of budget proposals to the Council Meeting on 3 March 2016. This could be achieved by one or more of the following actions:
- The identification, approval and delivery of additional permanent spending reductions (savings proposals);
  - A Council Tax increase in addition to the already proposed 2% increase relating to the Social Care Precept;
  - The use of one-off resources or one-off savings.
- 4.10 It should be noted that permanent spending reductions and council tax increases will reduce the reduction requirement for 2017/18 and beyond as well as for 2016/17. Conversely, 'one-off' proposals will leave a reduction requirement of more than £19m for 2017/18 rising to almost £61m by 2020/21 (see section 5 below for further details)
- 4.11 It is recommended that the Executive now finalises its budget proposals for 2016/17 which will lead to the preparation of an updated Medium Term Financial Plan.

## Risk Assessment and Minimum Balances

4.12 The following risks and uncertainties should continue to be noted:

- The level of Council Tax to be determined by the Council Meeting on 3 March 2016;
- The 2016/17 Local Government Finance Settlement remains 'Provisional'. The final settlement may include revised figures that impact on the forecasts presented in this report;
- The Council still awaits allocations from some significant funding streams including Public Health Grant and ILF Grant. Revised allocations in this regard could impact on the development of local service and spending plans;
- The localisation of business rates continues to exposes a significant proportion of Council resources to additional risks. These include the extent to which the tax base will grow or decline relative to future CLG baseline assessments and the extent to which it is necessary to provide for losses on rateable value appeals;
- Future changes in Council Tax base will impact on the level of council tax receipts. In addition, the Council will need to continue to monitor the impact of the localisation of council tax support to see whether or not there is any impact on collection rates in the longer term;
- Future interest rate increases and/or a significant unplanned reduction in the level of internal balances could lead to an increase in forecast capital financing costs;
- On-going demographic pressures for demand led services such as Adults and Children's Social Care are likely to remain a feature of medium term spending forecasts although there is now an opportunity to mitigate the impact of these pressures through the introduction of a social care precept;
- Although the Chancellor has signalled public sector pay awards will be capped at 1% per annum for the next four years, superannuation rates and specific price inflation pressures remain uncertain. In particular, the introduction of the national living wage could lead to significant cost pressures arising in a number of council services (e.g. social care);
- The future value of levies for the GM Waste Disposal Authority and GM Combined Authority.

### *Sensitivity Analysis*

4.13 To illustrate the extent to which forecasts can vary given changes in underlying assumptions, sensitivity analyses have been included at Appendix One.

### *Risk Assessment of Budget Proposals*

4.14 Under Section 25 of the Local Government Act 2003, the Corporate Director, Corporate and Support Services is required to prepare a statement on the adequacy of proposed financial reserves and the robustness of the budget estimates. Members are reminded, therefore, that any budget proposals which are to be tabled at the Budget Council Meeting must first be subject to a risk assessment undertaken by the Corporate Director, Corporate and Support Services. The risk assessment of the Executive's budget proposals is included within that item elsewhere on the agenda.



## 5 2017/18 to 2020/21 Updated Financial Forecast

- 5.1 The longer term forecasts provided in this report reflect the continuation of reduced spending totals as outlined in the OBR forecast published alongside the Spending Review and Autumn Statement as well as the figures to 2019/20 presented as part of the local government finance settlement. The figures for 2020/21 fall outside of the government's spending review period but the presentation of them has been adjusted to reflect the government's intention to localise 100% of business rates revenues resulting in fewer specific grants and the transfer of duties and responsibilities from Whitehall to the local government sector.

### Adjustments to Forecast since 16 December 2015

- 5.2 All of the adjustments set out in section 4 (above) have been carried through to 2020/21. The following table shows how all these factors have changed the cumulative indicative savings requirement since the previous report.

	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Reduction Requirement as at 16 Dec 2015	13,130	30,123	44,340	58,532
Reduction Requirement as at 16 Feb 2016	19,170	35,077	47,379	60,944
<b>Increase in reduction requirement</b>	<b>6,040</b>	<b>4,954</b>	<b>3,039</b>	<b>2,412</b>

- 5.3 The increased reduction requirement for 2017/18 (£6m) is significant and due largely to the impact of the withdrawal of future Council Tax Freeze Grant and greater than anticipated reductions in Revenue Support Grant. The increase in budget reduction requirement from 2018/19 onwards is mitigated to some extent by additional BCF monies offsetting adverse changes in Council Tax Freeze Grant, Revenue Support Grant and New Homes Bonus Grant.
- 5.4 The table below summarises the forecast for 2017/18 to 2020/21. By 2020/21, the cumulative reduction requirement is forecast to be £61m equivalent to around 33% of indicative cash limits. This position is of course based on the premise that the Executive's proposals to reduce cumulative ongoing cash limit spending during 2016/17, to the tune of £18.580m, are implemented in full and are successful in that regard.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<b>Resources</b>				
Stockport MBC Council Tax	127,266	128,009	128,752	129,248
Social Care Precept	2,545	2,560	2,575	2,585
Revenue Support Grant	17,277	10,240	3,191	0
Business Rates - District Share	45,924	47,279	48,791	102,761
Grants in Lieu of Business Rates	2,527	2,602	2,685	0
Central Education Services Grant	2,848	1,831	1,017	0
New Homes Bonus Grant	3,385	2,127	2,040	0
Improved BCF Allocation		3,111	6,333	0
Public Health Grant	17,045	17,045	17,045	0
	<b>218,817</b>	<b>214,804</b>	<b>212,429</b>	<b>234,594</b>
<b>Expenditure</b>				
Cash Limits	156,514	157,536	158,294	183,523
Pay	1,986	3,004	4,039	6,145
Superannuation/Auto Enrolment	1,577	2,896	3,597	4,305
Price Inflation (Incl. National Living Wage)	10,792	15,592	20,542	25,592
Demand Pressures	2,500	3,000	3,500	4,000
Apprenticeship Levy	400	400	400	400
Non-Cash Limits	64,218	67,453	69,436	71,573
	<b>237,987</b>	<b>249,881</b>	<b>259,808</b>	<b>295,538</b>
<b>Cumulative Reduction Requirement</b>	<b>19,170</b>	<b>35,077</b>	<b>47,379</b>	<b>60,944</b>

5.5 These estimates are based on the following key financial assumptions:

	2017/18	2018/19	2019/20	2020/21
SMBC Council Tax (Excl. Social Care Precept)	0%	0%	0%	0%
SMBC Council Tax - Social Care Precept	0%	0%	0%	0%
Settlement Core Funding	-5.1%	-3.1%	-3.1%	n/a
Settlement Funding Assessment	-14.1%	-9.2%	-9.9%	n/a
Revenue Support Grant	-38.9%	-40.7%	-68.8%	n/a
Pay Award	1.0%	1.0%	1.0%	2.0%
Employer's Pension Contribution	20.0%	21.0%	22.0%	23.0%
Waste Authority Levy	9.8%	6.1%	2.7%	2.8%
Combined Authority Levy	4.0%	4.0%	2.0%	2.0%

#### Risks and Potential Further Adjustments

5.6 Forecasting this far ahead brings further risks and uncertainties beyond those set out previously from paragraph 4.12 above. Including:

- Plans to localise all business rates revenues by the end of the decade will have major implications for the Council's medium term finances and underlying risks. It will only be possible to model the impact of the proposed

reforms once more details emerge from the forthcoming development and consultation process;

- In addition to the challenges presented by the appeals process and rates avoidance activity, the government is to press ahead with rates revaluation from 1 April 2017. Although it is hoped reform will bring much needed stability to the tax base, revaluation has the potential to impact on top up and tariff calculations as well as Settlement Funding Assessments;
- Plans to devolve spending and decision making continue to progress with Greater Manchester leading the process. Devolution plans, particularly with regard to Health and Social Care, could impact on the forecasts included in this report if the government combines those plans with further savings, for example by top slicing resources that are being transferred to city regions;
- Specific grant allocations for future years have yet to be announced and there could be further reductions that emerge from areas previously protected. The government has already signalled reductions in Public Health and Education Services Grant are likely in the short and medium term;
- The government has signalled it wishes to save £800m from NHB and reform the incentive; possibly reducing payments from 6 years to 4 years. The precise impact of these changes will not be known until CLG publishes further details as to how the scheme will change;
- The delivery of public services within the Borough is likely to become ever more reliant on the Council working effectively with partners, including the pooling of resources and the development of integrated commissioning / delivery models. Such organisations will face their own financial and other challenges which will serve to heighten the Council's risks at certain times;
- Although education funding continues to be protected a new national funding formula will be introduced in 2017 and it is not yet clear how that formula will impact on Stockport Schools. The government has signalled that it wishes to reduce the role of local authorities in the education system and is reducing Education Services Grant accordingly. Local Authorities depend on a significant proportion of education funding to provide education services that form part of the retained schools budget. Spending reductions in this area could give rise to additional cash limit pressures if additional savings within the DSG arena are not identified.

5.7 Given the considerable risks and uncertainties surrounding the forecasts illustrated in this report, particularly those beyond the current spending review period, further sensitivity analyses have been included at Appendix One.

## **6 Next Steps**

The Executive has taken the necessary steps to propose a final balanced budget for 2016/17 (elsewhere on the agenda). This will be presented to the Budget Council meeting on 3 March 2016.

## **7 Conclusions**

7.1 The existing medium term financial plan now indicates a budget reduction requirement for 2016/17 reflecting the impact of the local government finance settlement and a small number of other adjustments set out in section 4 of this

report. The current year's position represents a relatively stable financial platform upon which to deliver the remainder of the current programme of savings.

- 7.2 Alongside the local government finance settlement the forecasts included in this report take into account various assumptions regarding the key variables which determine the Council's financial prospects, in relation to both resource availability and spending pressures. A sensitivity analysis has been included at Appendix One to demonstrate the extent to which changes in these key variables can impact on the MTFP position.
- 7.3 At this stage, assuming that the Executive agrees the adjustments set out in this report, a savings requirement of £2.385m remains in 2016/17. The longer term forecast to 2020/21 suggests the savings requirement could reach almost £61m although such forecasts are by no means certain. The scale of the financial challenge for the medium term remains significant not least because it comes in addition to around £93m of budget reduction proposals already approved since 2011/12; of which around £18.6m are planned for 2016/17. At the same time the Council will be required to play a significant role in major service transformation agendas, in particular Health and Social Care Integration.

## **8 Recommendations**

The Council Meeting is asked to note the report.

### **BACKGROUND PAPERS**

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Michael Cullen on Tel: 0161 474 4631 or by email on [michael.cullen@stockport.gov.uk](mailto:michael.cullen@stockport.gov.uk)



## Appendix One

### Financial Landscape and Forecasts 2016/17 to 2020/21 - Sensitivity Analysis

		<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
SMBC Council Tax	1.99% pa	(2,522)	(5,167)	(7,899)	(10,717)	(13,594)
Social Care Precept	2.00% pa	n/a	(2,648)	(5,484)	(8,520)	(11,746)
Business Rates Yield	+1% pa	(450)	(459)	(473)	(488)	(1,028)
	-1%pa	450	459	473	488	1,028
Revenue Support Grant	+1%pa	(283)	(173)	(102)	(32)	0
	-1%pa	283	173	102	32	0
Pay Awards	0%pa	(985)	(1,986)	(3,004)	(4,039)	(6,145)
	3%pa	2,955	5,958	9,012	12,117	15,276
Price Inflation	Favourable	(414)	(679)	(959)	(1,254)	(1,559)
	Adverse	414	679	959	1,254	1,559
Combined Authority Levy	-1%pa	(204)	(415)	(641)	(869)	(1,104)
	+1%pa	204	415	641	869	1,104
Waste Authority Levy	-1%pa	(171)	(374)	(599)	(828)	(1,067)
	+1%pa	171	374	599	828	1,067
Demand Pressures	Favourable	(750)	(1,000)	(1,250)	(1,500)	(1,500)
	Adverse	750	1,000	1,250	1,500	1,500
<b>Totals</b>	<b>Favourable</b>	<b>(5,779)</b>	<b>(12,901)</b>	<b>(20,411)</b>	<b>(28,247)</b>	<b>(37,743)</b>
	<b>Adverse</b>	<b>5,227</b>	<b>9,058</b>	<b>13,036</b>	<b>17,088</b>	<b>21,534</b>

## Indicative Budget Adjustments - 2015/16 to 2016/17

	<b>2016/17 £000s</b>
<b>Independence and Wellbeing Portfolio</b>	
2015/16 Budget (Q3 CPRR)	16,624
Employers National Insurance (End of Contracting Out)	100
2016/17 Superannuation	19
Public Health Grant	2,396
	<b>19,139</b>
<b>Safe and Resilient Communities Portfolio</b>	
2015/16 Budget (Q3 CPRR)	10,056
Employers National Insurance (End of Contracting Out)	324
2016/17 Superannuation	66
Prudential Borrowing Schemes	32
IIS Savings Programme:	
- HRA / General Fund	(500)
- Public Safety and Protection Service	(500)
- 0-25 SEND reform	(300)
- Library Management Efficiencies	(200)
- Neighbourhood Management	(200)
	<b>8,778</b>
<b>Support and Governance Portfolio</b>	
2015/16 Budget (Q3 CPRR)	23,438
Employers National Insurance (End of Contracting Out)	606
2016/17 Superannuation	116
Prudential Borrowing Schemes	146
Drainage in Parks and Cemeteries	33
IIS Savings Programme:	
- Corporate and support services	(2,000)
- Information, advice and guidance	(250)
	<b>22,089</b>

	<b>2016/17 £000s</b>
<b>Supporting Adults Portfolio</b>	
2015/16 Budget (Q3 CPRR)	64,384
Employers National Insurance (End of Contracting Out)	707
2016/17 Superannuation	136
Social Care Precept (Balance in excess of £2.5m)	34
Demographic Pressures	1,000
IIS Savings Programme:	
- Pooled Budget - Integrated Health and Social Care	(4,900)
- Pooled Budget - Learning Disability Review	(2,100)
- Pooled Budget - Preventative Commissioning	(1,000)
One off Budget Support (Approved 16 December 2015):	
- Learning Disability Services	1,000
- Care Management	1,596
- Pooled Budget Contribution	1,616
	<b>62,473</b>
<b>Supporting Children Portfolio</b>	
2015/16 Budget (Q3 CPRR)	24,911
Employers National Insurance (End of Contracting Out)	358
2016/17 Superannuation	69
Foster Care - Staying Put	166
IIS Savings Programme:	
- Integrated prevention / safeguarding family services	(3,000)
- 0-25 SEND reform	(200)
One off Budget Support (Approved 16 December 2015):	
- Stockport Family	25
	<b>22,329</b>

	<b>2016/17 £000s</b>
<b>Supporting Places Portfolio</b>	
2015/16 Budget (Q3 CPRR)	25,945
Employers National Insurance (End of Contracting Out)	67
2016/17 Superannuation	13
Prudential Borrowing Schemes	129
IIS Savings Programme:	
- Public Realm and SSK Operating Model	(2,100)
- Highways and engineering services	(500)
- Leisure facilities	(430)
- Markets, museum and cultural attractions	(400)
- Investment in Highways	(192)
One off Budget Support (Approved 16 December 2015):	
- Leisure facilities	430
	<b>22,962</b>
<b>Thriving Economy Portfolio</b>	
2015/16 Budget (Q3 CPRR)	2,027
Empty Homes Officer	50
	<b>2,077</b>
	<b>159,847</b>



	<b>2016/17 £000s</b>
<b>Non-Cash Limits</b>	
2015/16 Budget (Q3 CPRR)	66,968
Employers National Insurance (End of Contracting Out)	19
Capital Financing Costs	(2,871)
Airport Dividend	(600)
Investment in Highways (Insurance Saving)	(300)
Waste Disposal Authority Levy	1,681
Contribution from Waste Strategy Reserves	(863)
GMCA Transport Levy	(11)
Pay	985
Superannuation (Auto-Enrolment)	100
Price Inflation (Incl. National Living Wage)	4,596
Demand Pressures	500
One-off contributions to/from reserves (2015/16):	
- Insurance	750
- New Homes Bonus	223
- Investing in Stockport	(657)
	<b>70,520</b>
<b>Total</b>	<b>230,367</b>

## **2016/17 REVENUE BUDGET, CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL PLAN**

### **Report of the Leader of the Council and the Deputy Leader (Executive Councillor for Support and Governance)**

#### **1 Introduction and Purpose of Report**

- 1.1 The purpose of this report is to finalise the Executive's Revenue Budget Proposals for 2016/17 and Capital Programme Investment Plans. It also outlines the prospects for the Council's finances for the medium term. The report discusses the overarching priorities and desired outcomes upon which the Executive has based its budget proposals, and which form the basis of the updated Council Plan included elsewhere on the agenda.
- 1.2 The report takes account of reports elsewhere on the agenda from the Corporate Director, Corporate and Support Services which:
  - Update the revenue budget forecasts for 2016/17 to 2020/21;
  - Update the capital programme position to take account of the 2015/16 quarter three monitoring position and the Executive's capital investment plans for the medium term;
  - Detail the Council's proposed Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2016/17
- 1.3 In particular, this report needs to be seen in conjunction with the report of the Corporate Director, Corporate and Support Services on the 'Financial Landscape and Forecasts' for the forthcoming years. That report clearly sets out the budget challenges we face and considers the longer term risks and potential variations which could have a significant impact on the Council's medium term financial position.
- 1.4 Specifically, the forecasts included in that report, and the Executive's response, take account of a range of factors. These include the following:
  - Budget experience and performance in 2015/16, the latest update of which is reported elsewhere on this agenda;
  - Issues, challenges and financial prospects facing the Council in 2016/17 and over the following four years;
  - The Spending Review and Autumn Statement (published on 25 November 2015) and related Government announcements;
  - The Provisional and Final Local Government Finance Settlement for 2016/17;
  - The Council Tax Base and Business Rates forecast for 2016/17 agreed by the Executive on 16 December 2015;
  - The package of measures approved by the Executive in December which enable indicative cash limit budgets to be reduced by £18.580m during 2016/17.

- 1.5 The issues discussed and proposals contained in this report will also inform:
- Future deliberations around priorities and outcomes for the forthcoming update of the Council Plan;
  - The preparation of medium term business plans covering all of the Council's portfolios and service areas.
- 1.6 The aforementioned Financial Landscapes and Forecasts report reflects the impact of the provisional and final local government finance settlement and some further adjustments that have been made to the forecasts since the last update in December.
- 1.7 Following the provisional settlement a further budget reduction of around £2.4m needed to be identified for 2016/17 if the plan we agreed in December was to be delivered. In our response to the consultation on the provisional settlement (included at Appendix One), we stated that councils like Stockport ought to be provided with transitional support to ease the pressure on budgets and council tax levels during the first and most difficult two years of the spending review prior to additional Better Care Fund monies being payable. Thankfully, the Government recognised that issue in the final settlement and has provided Stockport with around £1m per annum of Transition Grant for 2016/17 and 2017/18.
- 1.8 However, this funding is only temporary and does not fully address the budget reduction requirement that followed the provisional settlement. Nevertheless, against the current plan it has resulted in a lower requirement for 2016/17 of £1.315m, rising to £18m for 2017/18, £35m for 2018/19, £47m for 2019/20 and £61m for 2020/21. This report explains how the Executive proposes to address the 2016/17 requirement and provides some comments and views on the prospects for future years. In proposing a budget and council tax increase for 2016/17 the Executive has taken into account the medium term forecasts and the clear need to increase the permanent resources available to deliver council services. The government has cut our ongoing grant support on the basis that the Authority will increase ongoing resources by raising council tax; we cannot ignore that fact.

## **2 Council Plan/Investing in Stockport**

- 2.1 The Executive, in December 2014, agreed a two-year 'Investing in Stockport' programme of reform and investment. This was in response to changing finance and demand landscapes within Stockport and reflected the Council's ambition to adopt an outcome led approach to addressing these challenges. This vision, along with a greater emphasis on GM devolution, is outlined within the Council's refreshed 2016/17 Council Plan, elsewhere on the agenda for this Executive Meeting, which is aligned with the longer-term vision set out in the Borough Plan (approved by the Council Meeting in September).
- 2.2 The Council has been working closely with partners, businesses and communities to progress the Investing in Stockport (IIS) Programme and significant developments have been made in delivering ambitious programmes of change such as: Stockport Family; the introduction of new collaborative commissioning arrangements through the Targeted Prevention Alliance, Alliance for Positive Relationships and Wellbeing and Independence Network; and, the

ongoing work with colleagues from the Foundation Trust and Clinical Commissioning Group to progress integrated Health and Social Care commissioning and provision within Stockport.

- 2.3 At its meeting on 16 December 2015 the Executive approved final IIS business cases for implementation during 2016/17. This had followed a series of previous updates to Executive and a period of consultation and engagement to inform the development of proposals. These proposals, including milestones and key benefits, are reflected within the refreshed 2016/17 Council Plan elsewhere on this agenda.
- 2.4 The Executive also requested that the following business cases undertake further development before returning to a future Executive meeting for approval:
- Health and Social Care Integration (Plan D proposals);
  - Information, Advice and Guidance;
  - Corporate and Support Services; and
  - Highways and Engineering.
- 2.5 The Council's Digital by Design and Locality Working programmes will continue to support and enable the delivery of change and the 'Investing in Stockport' programme during 2016/17 and beyond. Members will be aware that we have committed to a significant investment to enable a step change in our digital capability through the Digital by Design programme. The Council Plan affirms this commitment alongside the development of a new approach towards inclusion.

### **3 Local Government Finance Settlement**

- 3.1 The Corporate Director's report outlines the main elements of the provisional and final finance settlement and the impact this has had on the budget plan agreed by the Executive in December. Despite the welcome offer of Transition Grant, Stockport's finance settlement for 2016/17 and future years remains disappointing. Without any signalling or prior warning, the government has fundamentally changed the basis of the underlying settlement compared with previous years to give much greater prominence to the level of council tax receipts that authorities generate in determining how the required overall reductions in government grant are distributed between authorities. Furthermore, the settlement makes it clear that the government has performed a U-turn in relation to its policy on council tax increases. After encouraging, even demanding, council tax freezes for the past five years the government's own figures assume that local authorities will increase council tax by around 3.75% in each of the next four years.
- 3.2 From a previously balanced position, the provisional settlement created a pressure on our 2016/17 plan equivalent to £2.9m, albeit reduced to £1.9m on a temporary basis with the help of Transition Grant. Similarly, the 2017/18 forecast reduction requirement increased by £5.8m as a result of the provisional settlement but was subsequently pegged back to £4.8m as a result of the above-mentioned grant. No financial assistance has been provided to mitigate the significantly damaging impact of the provisional settlement on the remainder of the spending review period (2018/19 and 2019/20). As can be seen in the Corporate Director's report there have been several other adjustments to the budget forecast and the net

position is that there is a net budget shortfall of £1.315m to resolve in 2016/17, bearing in mind of course that the underlying shortfall is £1m greater than that.

- 3.3 Whilst we accept it is fair to have regard to the strength of the local tax base in settlement calculations, we believe it is unfair to take no account of the historic under funding Stockport has long argued it has suffered from and which now appears to be embedded in this latest incarnation of the local government finance system.
- 3.4 Although we anticipated that new freeze grant may not be on offer from 2016/17, we did not expect the Government to renege on its promise to protect grant funding from Council Tax Freezes agreed during the last spending review period. This funding has been rolled into Revenue Support Grant which, as we all know, will be reduced to zero by the end of the decade.
- 3.5 Given such a disappointing outcome to the provisional finance settlement, the Executive felt it appropriate to respond to the consultation on the settlement. The response submitted (finalised after consultation with Group Leaders) is attached for information at Appendix One. It was pleasing to see that the government recognised and responded to the points made regarding the significant impact that the changes to grant distribution methodology would have on councils such as Stockport, particularly in 2016/17 and 2017/18.
- 3.6 From the analysis presented in the Financial Landscapes and Forecasts Report (elsewhere on the agenda) it is clear that Stockport will bear a 41% reduction in Settlement Funding Assessment and a 16.7% reduction in Settlement Core Funding between 2015/16 and 2019/20. In contrast to these figures, the Government says Stockport will only see a 1.5% reduction in its Core Spending Power over the same period. However, to achieve this relatively low percentage reduction (although still much worse than the England average of 0.5%), the government has included £6.3m of additional BCF funding which will actually be needed to help deliver Health and Social Care Integration and assumed, rather alarmingly, that Stockport will be able to generate around £26m in additional Council Tax receipts; almost 21% more than for 2015/16. While the provision of £2m of Transition Grant will undoubtedly provide some temporary respite, it will have no impact on underlying funding reductions across the whole of the spending review period.
- 3.7 The Government figures assume we can grow the tax base and raise around £5.5m without increasing Band D Council Tax. Figures underpinning our forecasts suggest £2m additional revenue from tax base growth is a more realistic figure. Crucially however, the Government also assumes we will levy not only a 2% Social Care precept every year but a further 1.75% per annum on top of that. Even committing to this kind of increase right now for the entire forecast period would still leave the Council with an estimated budget reduction requirement of around £37m by 2020/21; even after delivering the planned savings programme (worth £18.58m) that the Executive approved in December 2015.



## **4 Executive Budget Proposals**

- 4.1 The illustrations presented in the Government's Core Spending Power calculation clearly demonstrate that the government wishes to place a major share of the burden of its austerity programme onto local council tax payers. As demonstrated over the past few years our desire is to protect local people from significant increases in council tax; indeed we have frozen Stockport's tax in four out of the previous five years. However, the sheer scale of government funding reductions, social care demands and other spending pressures (in large part resulting from Government Policy surrounding State Pensions, the National Living Wage and Apprenticeships) mean it is simply not possible to continue to do that without jeopardising the Council's financial sustainability in the medium to long term. The fact we face the prospect of having to reduce planned spending by £61m by 2020/21, in addition to the £93m savings already approved since 2011/12, and considering that the referendum criteria leaves absolutely no scope for deferring Council Tax increases means we are left with no choice but to follow the Government's lead and propose a Council Tax increase.
- 4.2 Based on the outcome of the provisional finance settlement, the Executive was left with no choice but to propose a Council Tax increase of 3.75%, in line with the government's expectations, in order for the budget we put forward in December to be balanced. The award of £1m per annum of Transition Grant for 2016/17 and 2017/18 provides an opportunity to vary our plan by either restricting the council tax increase or investing additional one-off resources into our spending plan for 2016/17. The Executive does not believe that the one-off transition grant should be used to depress the council tax increase below that needed to counter the permanent reduction in government grant, i.e. 3.75%. While a lower council tax increase in 2016/17 may have some merit (although the minimum rise needed to balance our budget would be around 3%), it would merely pass forward a £1m reduction requirement into 2017/18.
- 4.3 A further 1.75% increase on top of the previously proposed 2% Social Care Precept will yield an additional £2.218m. This would produce a surplus of £0.903m against the 2016/17 requirement of £1.315m reported above. The Executive is proposing that a one-off investment fund of this amount be included in the 2016/17 budget, and will provide details on how that could be utilised in its report to the Council meeting on 3 March. Apart from these two adjustments the Executive's budget proposals are as presented to the meeting in December. Further analysis supporting the 2016/17 proposed revenue budget is shown across a number of appendices including:
- A statement summarising changes to the forecast savings requirement from the previous Budget Council Meeting (Appendix Two refers);
  - A summary of the proposed 2016/17 Revenue Budget including Portfolio cash limit allocations (Appendix Three refers);
  - A summary of the proposed 2016/17 cash limits on an Investing in Stockport basis (Appendix Four refers).
- 4.4 The proposed 2016/17 cash limit for the Independence and Wellbeing portfolio includes the allocation of public health grant which was announced after the final settlement. Stockport's allocation is £16.487m which includes the full year effect of the budget for children aged 0-5, the rolling forward of the in-year cut made in

2015/16 (£0.967m) and the impact of a further 2.2% reduction in the national total. An indicative allocation has been given for 2017/18 (£16.081m) and illustrative amounts for future years are included in the appendices based on the notional national totals announced. This means that the public health spending plan will have to be reduced by a further £0.4m in 2016/17 on top of the reduction applied in 2015/16. The Executive Councillor and officers are working on the plan, taking account of the availability of reserves and contingencies as well as options to reduce expenditure funded by the public health grant. Absorbing this reduction within the Public Health budget will require: a reduction in activity within the current Public Health programmes, a review of existing contract values with local providers, and a review of the workforce prior to achieving staffing savings.

- 4.5 The Executive has not taken lightly the decision to recommend a council tax increase of 3.75%. Having already committed to the 2% 'social care precept' increase to protect adult social care we did weigh up the pros and cons of raising it further, both before and after the final settlement. The alternative of making further reductions to cash limits and asking Executive Councillors and officers to come up with robust savings proposals this late in the budget process is not tenable as it would no doubt result in severely detrimental impacts on resident and service users. On the other hand, the 'easy' option of raiding earmarked reserves and / or reducing general balances was also discounted. We feel it would be imprudent to merely shift the problem on a year, especially given the size of the challenge already facing us beyond 2016/17. Furthermore, spending one-off resources in this way, i.e. to plug a gap rather than as part of a well-structured plan, would deny us the use of that money for the purposes it has been set aside, and would weaken the financial platform upon which our budget proposals are founded.
- 4.6 The Executive understands the need to make significant reductions in underlying spending, but also appreciates how difficult it is to make the radical changes necessary to service delivery models and ways of working. In particular, the integration of health and social care through Stockport Together and the GM Devolution programme, including the pooling of resources with the NHS in Stockport, has the potential to deliver improved outcomes and contain spending within available resources. However, the need to invest in new models of care while 'double running' with existing provision to meet service targets will require the investment of substantial one-off resources over the next year or two. The Executive's 'Plan D' for adult social care includes such a mix of short term investment (over £6m) and ongoing reductions (£8m) which will be achieved in conjunction with health colleagues through the integrated commissioning and delivery of health and social care activities. While our plans include the 2% 'social care precept' for 2016/17, the Council will at some stage need to determine whether or not to include such an increase in future years' budgets.
- 4.7 The Executive believes that its proposed budget for 2016/17 can be delivered, albeit not without some risks and challenges. Our continued effective financial management is demonstrated by the positive forecast outturn for the current year and the levels of reserves and balances that we will have to support the budget in 2016/17 and beyond.

## **5 Fees and Charges**

- 5.1 2016/17 proposed cash limits are supported to varying degrees by additional income from sales, fees and charges. A list of charging areas and an estimate of the income expected to be generated from each group of charges is set out at Appendix Five. The estimates are based on demand forecasts and inflation assumptions that are specific to each charging area and have been developed in consultation with the appropriate Executive Councillor. The setting of specific fees and charges is a matter for the Executive and Executive Councillors. Any decision to change the fees and charges levied by the Council will be recorded as a decision and made available for call in/scrutiny. The risk assessment of the budget (Appendix Six) makes provision for the fact that actual yield from fees and charges may be lower than forecast.
- 5.2 Income from discretionary fees and charges is expected to be £0.964m higher than for 2015/16. This overall increase is due to:
- An increase in the number of free Adult Education courses (£0.100m reduction);
  - Withdrawal of the Community Meals service (£0.170m reduction);
  - An improvement in income from the Disabled 'Blue Badge' Parking scheme (£0.020m increase);
  - Increased yield from forecast non-residential care charges (£0.454m increase);
  - An improvement in Registrars income including greater demand for individual citizenship ceremonies (£0.043m increase);
  - Rental income from garages and shops that have transferred from the Housing Revenue Account to the General Fund (£0.820m increase);
  - A reduction in yield from planning fees reflecting experience from 2015/16 (£0.101m reduction).

## **6 Risk Assessment of the 2016/17 Proposed Revenue Budget**

- 6.1 Under Section 25 of the Local Government Act 2003, the Corporate Director, Corporate and Support Services is required to prepare a statement on the adequacy of proposed financial reserves and the robustness of the budget estimates. The Corporate Director reminds Members that any budget proposals which are to be tabled at the Budget Council Meeting (to be held on 3 March 2016) must first of all be subject to such a risk assessment.
- 6.2 The Corporate Director, Corporate and Support Services, has undertaken a detailed risk assessment of the Executive's budget proposals and a summary is attached at Appendix Six. Also included at Appendix Seven is the requisite Statement by the Corporate Director on the adequacy of the reserves and the robustness of the estimates. The minimum recommended level of general balances required to support the budget is £9.2m. The Executive is confident, based on the outturn forecast for the current year that at least that level of general balances will be available to be carried forward into 2016/17.
- 6.3 The minimum balances recommended are at a similar level to that which applied to the 2015/16 budget. This reflects the fact that in overall terms risk levels

surrounding the Executive's proposed budget for 2016/17 are considered to be similar to the current year. However, this also recognises that the Executive has struck a balance between the need to make substantial ongoing spending reductions with an ability to utilise one-off resources to support the Council's budget during 2016/17.

## **7 Future Years**

- 7.1 Appendix Eight provides an updated forecast for the five year period 2016/17 to 2020/21, reflecting the changes to the MTFP that result from our 2016/17 budget proposals. This indicates a balanced budget for 2016/17 followed by a further two year savings requirement which amounts to £32.8m by 2018/19 (this figure would be around £36.6m without the proposed Social Care Precept/Council Tax increase in 2016/17). When it is borne in mind that this will follow on from cumulative reductions of around £93m from 2011/12 the continuing scale of the challenge becomes even more evident.
- 7.2 The Executive believes that the steps being taken to achieve outcomes while reducing spending for 2016/17, as set out in the Investing in Stockport programme, will also put the Council in a much better position to make further budget reductions from 2017/18 onwards. Becoming a more outcome focused, proactive, digital and locality based organisation will help the Council to make further substantial and rapid changes in the future.
- 7.3 While it is difficult at this stage to envisage exactly how the Council's budget will be balanced in 2017/18 and future years the Executive believes the challenge can be met by developing the Council's Medium Term Financial Strategy (MTFS) to address the following areas in particular.

### Resources

- 7.4 The first point to consider relates to the government's offer of a 'four year settlement' for 2016/17 to 2019/20. It would indeed be helpful to be certain of the level of grant support we will receive over the next four years. However, the lack of clarity regarding what exactly is being offered in terms of 'guaranteed' funding and the level of detail needed to be produced in the form of an 'efficiency plan' makes it difficult to know whether the four year offer can or should be taken up. We will carefully consider the pros and cons of doing so in good time for a decision to be taken by October 2016 as required by government.
- 7.5 It is clear from the medium term forecasts that the Council is becoming ever more dependent on resources raised locally through council tax and business rates. Even if council tax rates were not increased after 2016/17 the proportion of total resources arising from council tax receipts would be around 61% by 2019/20. The local share of business rates would bring in around 23% of the total, which of course will increase significantly when 100% localisation is introduced. The point here is that the Council's financial viability will rely heavily on the generation and collection of council tax and business rates income. Our MTFS therefore, needs to include ways in which we can grow our local tax bases and maximise the revenues generated in that way.

- 7.6 This brings together the Investing in Growth element of our IIS programme with our MTFP. Furthermore, the Executive believes that by stimulating economic growth the Council will be better able to generate additional income which supports the future delivery of essential public services. In order to finance the projects in our current, and future, Investing in Growth programme we are exploring the potential to bring a number of separate funding sources and income streams together alongside a more sophisticated approach to the use of Council-owned assets and the potential that exists through the Council's borrowing capacity. This approach, while still in development, would enable the Council to create a scalable financial mechanism which can support a pipeline of commercially and financially viable investment propositions that generate returns on investment. It is currently envisaged that an Investment and Development account will be introduced as a mechanism to manage, monitor and report on both current investments held and those in development in order to optimise capital values, maximise future revenue streams that result from these investments and reduce management costs.
- 7.7 The Council must seek to maximise the resources available to invest in public services in the Borough, working with partners and organisations that can bring relevant experience and expertise to bear. The government has signalled that it expects local council tax payers to pay more; the Council will need to decide how far it follows that lead beyond 2016/17 and how the relationship with local people may need to change if that was the case.

#### Spending

- 7.8 The Executive is proposing that the Council puts around £85m of resources into a pooled budget with the Clinical Commissioning Group (CCG) in 2016/17 which could amount to over £220m. The Executive believes that through integrated planning, budgeting and commissioning, the combined resource can be deployed more effectively to improve health and care outcomes in the medium term. The fact that we are able to increase the level of resource going into the pooled budget from the social care precept and make substantial one-off contributions in 2016/17 will improve the prospects for its sustainability. It is also to be hoped that the government, through the GM Devolution deal, will provide local authorities and health bodies with the resources, freedoms and flexibilities required to enable the changes needed to achieve the desired financial and clinical sustainability.
- 7.9 It is evident that the scale of reductions required across the Council will require radical changes to the way in which services are commissioned, procured, delivered and managed. Even more economies and efficiencies will have to be identified, through digital developments and partnership working in particular, including at a Greater Manchester level. The workings of the Council itself will have to be examined, the costs associated with the Authority's infrastructure and operations will need to be evaluated and subject to rigorous cost benefit analyses. Developing relationships with communities through the locality working programme should lead to new ideas and innovation regarding service provision and prioritisation.
- 7.10 Of course, a significant proportion of net expenditure is non cash limit, including levies in respect of transport and waste disposal that amount to some £39m, together with capital financing charges of around £19m. As outlined in paragraph



7.6 above, it is envisaged that this could be reduced by increasing the return on investments and generating income streams to meet a greater proportion of debt charges. The cost of waste disposal and transport across Greater Manchester should, alongside other city region matters, be addressed by the Combined Authority with a view to bringing down costs wherever possible.

- 7.11 The Council will need to identify the 'core' level of 'essential' spending appropriate to meet its requirements, be they statutory or outcome driven, being clear that the costs incurred provide value for money. This would form the basis of a core budget requirement to be met from those funding sources which provide greatest certainty (elements of council tax and business rates income). Above those levels it may be advisable to operate a more flexible resource deployment, reflecting the risks that may be attached to certain income streams.

## **8 Capital Programme**

- 8.1 The Council has substantial capital investment planned over the short, medium and longer terms as part of Investing in Stockport, which will help regenerate the economy, create jobs and develop strong communities.
- 8.2 The Prudential Code requires Local Authorities to set a capital programme for the next year and following two years. The 2016/17 Capital Programme therefore includes schemes and resources for financial years 2016/17 - 2018/19. In addition, information about approved schemes that span beyond 2018/19 is also included.
- 8.3 The Capital Programme has been set to support the delivery of outcomes and outputs associated with the priorities contained in the Council Plan. The Executive will need to keep under review the allocation of the Council's capital resources to ensure they fully underpin the achievement of current and new priorities over the financial planning horizon.
- 8.4 The 2015/16 capital programme set out in the third Quarter Corporate Performance and Resources Report (elsewhere on the agenda) is the basis for the Executive's proposed Capital Programme for 2016/17. Future Government grant funding allocations beyond 2016/17 are relatively unknown; the programmes beyond the next financial year reflect this and only contain schemes where funding is confirmed, including approved prudential borrowing schemes.
- 8.5 The following table sets out the proposed 2016/17 – 2018/19 Capital Programme by portfolio.

<b>Portfolio</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 Onwards Programme £000</b>
Safe and Resilient Communities	9,420	2,488	0	0
Supporting Adults	2,006	0	0	0
Supporting Children	14	0	0	0
Supporting Places	75,188	54,730	37,797	87,261
Support and Governance	21,802	3,250	950	0
Thriving Economy	102,748	34,055	17,044	0
<b>TOTAL</b>	<b>211,178</b>	<b>94,523</b>	<b>55,791</b>	<b>87,261</b>

8.6 As part of the 2015/16 budget setting process, the capital programme for 2016/17 was set at £109,529m. The 2016/17 programme has increased significantly through additional funding allocations and the re-phasing of schemes from 2015/16 and now stands at £211.178m. Further details of these changes by portfolio are set out in the table below.

<b>Portfolio</b>	<b>Approved Programme Feb 15 £000</b>	<b>New and amended Schemes £000</b>	<b>Re-phasing and Virements £000</b>	<b>Proposed 2016/17 Programme £000</b>
Safe and Resilient Communities	2,914	1,824	4,682	9,420
Supporting Adults	0	0	2,006	2,006
Supporting Children	0	0	14	14
Supporting Places	62,436	6,764	5,988	75,188
Support and Governance	3,612	812	17,378	21,802
Thriving Economy	40,567	32,920	29,261	102,748
<b>Total</b>	<b>109,529</b>	<b>42,320</b>	<b>59,329</b>	<b>211,178</b>

8.7 The 2016/17 capital programme has been increased by a number of new schemes and additional funding since it was originally approved in February 2015. A total of £42.320m in new funding has been added to the 2016/17 programme, made up of a combination of prudential borrowing schemes and Government grant funding allocations, including:

- £1m Department for Education capital grant funding to be allocated to schemes during 2016/17 (Safe and Resilient Communities).
- £0.687m Devolved capital funding for Individual Schools Schemes (Safe and Resilient Communities).
- £4.041m Greater Manchester Local Transport Plan grant funding, which has been allocated across a number of highways schemes including £0.560m to Street Lighting, £2.060m to LTP and SEMMMS Integrated Transport, £0.831m to Highways Structures, £0.300m to Drainage Schemes and £0.200m to District Centres (Supporting Places).

- £2m Developer Contributions in respect of Section 278 schemes (Supporting Places).
- £1.220m additional grant funding towards the Town Centre Access Plan (Supporting People).
- £6.428m directly funded borrowing to fund Aurora Stockport (formerly Gorsey Bank) (Thriving Economy).
- £5m in directly funded borrowing towards the regeneration scheme at the Markets and Underbanks (Thriving Economy).
- £8.885m directly funded borrowing towards the 2016/17 HRA new build schemes (Thriving Economy).
- £11.829m additional loan facility to Stockport Homes for the Affordable Homes schemes (Thriving Economy).
- £0.827m additional unsupported borrowing for the AMP updated programme (Support and Governance).

8.8 There has been a net total of £59.329m in funds re-phased to the 2016/17 capital programme. Schemes where significant funds have been re-phased to or from the 2016/17 capital programme include:-

- £6.719m to support the primary school expansion scheme (Safe and Resilient Communities).
- £1.237m to the Secondary Sector (Safe and Resilient Communities).
- £1.377m Department of Health capital grant funding to be allocated to schemes during 2016/17 (Supporting Adults).
- £0.737m for the restoration and redevelopment of Bramhall Hall (Supporting Places)
- £6.479m to support the Leisure Strategy (Supporting Places).
- £3.076m for the Asset Management Plan (Support and Governance).
- £3.867m for the Reprovision of the Dialstone Facility (Support and Governance).
- £4.356m in the loan facility to Solutions SK for the Fleet Replacement Strategy (Support and Governance).
- £5.955m loan to Stockport Homes for the development of their new headquarters (Support and Governance).
- £7.412m directly funded borrowing for Stockport Exchange Phase Two (Thriving Economy).
- £19.081m directly funded borrowing for the Redrock Development (Thriving Economy).
- £4.753m in revenue contributions to capital outlay (RCCO) for general capital schemes in the HRA (Thriving Economy)
- £2.645m in loans to Stockport Homes for the Affordable Homes schemes (Thriving Economy).
- £3.880m in directly funded borrowing has been re-phased from 2016/17 to later years for the Aurora Stockport scheme (Thriving Economy).
- £3m in directly funded borrowing has been re-phased from 2016/17 to later years for the Markets and Underbanks scheme (Thriving Economy).

8.9 Safe and Resilient Communities Portfolio has a total three year programme of £11.908m, with £9.420m planned expenditure for 2016/17. The Primary Sector makes up £6.999m of the 2016/17 capital programme, most of which relates to the school expansion scheme which is nearing completion.

- 8.10 Supporting Places has a substantial capital programme, with a total of £167.715m in schemes over the three year period and £75.188m planned for 2016/17. Highways schemes make up a large proportion of the capital programme, with £67.946m in the 2016/17 capital programme.
- 8.11 Within Highways, there are three major schemes in 2016/17, SEMMMS A6 to Manchester Airport Relief Road (£32.242m), Town Centre Access Plan (£12.068m) and Highways Investment Programme (£17.210m). These are long term schemes and span beyond the proposed 2016/17 programme. The table below sets out the expenditure to date and planned programme

<b>Scheme</b>	<b>Pre-16/17 spend* £000</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 onwards £000</b>	<b>Total £000</b>
SEMMMS Relief Road	41,578	32,242	21,235	9,161	30,396	134,612
Highways Investment Programme	18,843	12,068	12,275	12,681	44,298	100,165
Town Centre Access Plan	18,855	17,510	16,187	15,915	12,447	80,914
<b>Total</b>	<b>79,276</b>	<b>61,820</b>	<b>49,697</b>	<b>37,757</b>	<b>87,141</b>	<b>315,691</b>

\*Estimated spend

- 8.12 Support and Governance Portfolio has a total of £26.002m in the three year capital programme with £21.802m of planned expenditure for 2016/17. The Asset Management plan is the single largest scheme in the 2016/17 programme, with a £6.928m programme of works.
- 8.13 Thriving Economy Portfolio has the largest overall capital programme, with £153.847m over the three years. There is £102.748m in schemes in the 2016/17 capital programme. Furthermore, this Portfolio has the most varied programme and contains a number of significant schemes.
- 8.14 Stockport Exchange Phase Two is a directly funded borrowing scheme for the development of a hotel and office buildings. There is £11.758m in 2016/17 to fund this scheme and it is expected to be completed in quarter three of 2016/17.
- 8.15 Redrock is a leisure led development, incorporating multi-screen cinema, multi-storey car park, and retail and food and beverage units. There is £36.772m of directly funded borrowing in the 2016/17 capital programme and completion is expected mid-2017.
- 8.16 HRA capital schemes for general works and new build continue to make up a substantial proportion of the capital programme, with funding of £32.759m in 2016/17, £12.647 in 2017/18 and £17.044m in 2018/19. The new build programme has been boosted by £8.885m in 2016/17 by the recent addition of schemes including developments at St Thomas and Bulkeley Street. The HRA Business Plan sets out capital expenditure of £32.267m from 2019 through to 2021. This will be included in the programme once plans and phasing are firmly determined.

- 8.17 There is £23.232m in the Affordable Homes three year capital programme; £14.474m in 2016/17 and £8.758m in 2017/18. The Affordable Homes scheme is a loan facility to Stockport Homes and following Executive Approval on 21 July 2015, the loan facility was increased by a further £29.4m. The 2016/17 capital programme has a number of developments planned, including £5.186m for Charles Street and £3.736m for Bredbury Curve.
- 8.18 The Capital Programme is set out in detail by portfolio at Appendix Nine.

#### Capital Resources

- 8.19 The resources available to fund the 2016/17 three year capital programme are set out in the table below. In addition, resources approved for schemes that span beyond 2018/19 are included.

<b>Resources</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
Capital Grants	66,409	44,740	24,496	44,750
Directly Funded Borrowing	91,688	22,772	4,210	0
Unsupported Borrowing	22,471	14,718	13,951	42,511
Capital Receipts	5,526	1,760	0	0
External Contributions	1,787	0	0	0
Commutated Sums	2,000	2,000	0	0
Revenue Contributions (RCCO)	13,045	75	4,464	0
HRA funding from MRR	8,252	8,458	8,670	0
<b>TOTAL</b>	<b>211,178</b>	<b>94,523</b>	<b>55,791</b>	<b>87,261</b>

- 8.20 Government grant funding traditionally makes up a large part of the funding of the three year capital programme and 38% of the proposed three year programme is funded by grants. Greater Manchester Combined Authority (TfGM) grant funding for the SEMMMS A6 to Manchester Airport Relief Road and Town Centre Access Plan form the largest proportion (80%) of the grant funding in the three year programme.
- 8.21 Prudential borrowing (directly funded and unsupported borrowing) makes up the largest proportion (47%) of the resources funding the three year capital programme. Prudential borrowing must be sustainable and affordable and should only be used when a demonstrable benefit can be gained from the investment. Prudential borrowing could be seen as a substitute for reductions in other resources and the Council will continue to manage borrowing within the boundaries of the prudential code.
- 8.22 The borrowing costs for directly funded borrowing (DFB) schemes are met from repayments from portfolio cash limits or by annual repayments where the scheme is external to the Council. Significant DFB schemes in the 2016/17 programme include:

- £2.879m towards the Leisure Strategy (Supporting Places);
- £1.063m for Asset Management Plan schemes (Support and Governance);
- £4.928m as a third party loan to Stockport Homes for the new headquarters (Support and Governance);
- £5.955m third party loan to Solutions SSK for the Fleet Replacement Strategy (Support and Governance);
- £11.758m for Stockport Exchange Phase Two (Thriving Economy);
- £35.072m for Redrock (Thriving Economy);
- £2.548m Aurora Stockport (Thriving Economy);
- £2m Markets and Underbanks (Thriving Economy);
- £7.02m towards HRA new build schemes (Thriving Economy); and
- £14.474m third party loan facility to Stockport Homes for Affordable Homes (Thriving Economy).

8.23 The borrowing costs for unsupported borrowing (USB) schemes are met corporately and allowed for within the MTFP process. Significant USB schemes in the 2016/17 programme include:

- £1.093m towards primary school expansion schemes (Safe and Resilient Communities);
- £11.235m for the Highways Investment Programme (Supporting Places);
- £3.6m for the Leisure Strategy (Supporting Places);
- £4.512m towards the Asset Management Plan (Support and Governance);
- £1.7m towards the Redrock Development (Thriving Economy).

8.24 There is one small recurrent USB scheme in the programme, this was approved a number of years ago, is on-going in nature and will continue to be provided for in the capital programme until a decision is taken otherwise. This scheme is £0.040m for Schemes in Parks in Supporting Places Portfolio.

8.25 There is £7.286m of funding for schemes to be provided by capital receipts in the 2016/17 – 2018/19 programme and £3.792m of this is attributable to the re-provision of the Dialstone Facility, which has been re-phased from 2015/16. The Council has a number of assets in its disposal schedule and non-ringfenced capital receipts may be allocated to specific schemes or used to finance prudential borrowing schemes. At present, there is no corporate target for receipts funding but details of surplus property, including their marketing, are reviewed by the Estates Strategy Group.

8.26 Most of the resources provided by revenue contributions to capital outlay (RCCO) and all the Major Repairs Reserve (MRR) are attributable to the HRA capital programme (£13.045m RCCO and £8.252m MRR in 2016/17). The HRA is required to charge depreciation on its assets; this is an actual charge and is credited to the MRR. The funds in the MRR can then be used to lower the HRA Capital Financing Requirement or invest in capital expenditure.

#### Prudential Indicators



- 8.27 The Prudential Code requires Local Authorities to set prudential indicators with respect to their capital programme and borrowing position to ensure that its capital plans are affordable, prudent and sustainable.
- 8.28 The Council is required to report on a number of prescribed prudential indicators to demonstrate that it is fulfilling these objectives. These indicators highlight how much of the Council's revenue budget or HRA budget is being committed to servicing the prudential borrowing, i.e. the Ratio of Capital Financing Costs to Net Revenue Stream. The impact of borrowing costs must be fully understood when setting Council Tax and HRA rents.
- 8.29 As well as the regulatory indicators, the Council has developed a further set of 'local' Prudential Indicators to support the scrutiny and monitoring of capital investment plans emerging from the Investing in Stockport programme. These local indicators expand on the regulatory disclosures by:
- Reporting separate figures for the elements of the CFR and capital financing costs that are intended to be self-financing (for example, by creating an additional revenue stream or by reducing operating costs);
  - Presenting this information graphically to illustrate more clearly the forecast trends associated with these indicators.
- 8.30 Also included is a sensitivity analysis to illustrate the revenue implications arising from changes in interest rates, levels of internal balances and changes in forecast revenue streams. Finally, an additional table has been included to illustrate the revenue implications of borrowing a notional £10m from the Public Works Loan Board.
- 8.31 Debt that is intended to be 'self-financing' is categorised as follows:
- Commercial Schemes – Major regeneration schemes intended to create an additional revenue/rental stream to cover the associated capital financing costs; for example Redrock and Stockport Exchange Phase Two
  - Directly Funded Borrowing – Schemes where the costs are borne by cash limits or recharges to schools; typically being financed by additional revenue streams or operating cost reductions; for example the Council's Asset Management Plan and Leisure Strategy;
  - Third Party Loans – Largely comprising loans to Solutions SK Ltd and Stockport Homes Ltd where the financing costs are met by those organisations.
- 8.32 All remaining 'debt' is financed corporately as part of Non-Cash Limits and included in a fourth category titled 'Corporate Borrowing'.
- 8.33 The prudential indicators, based on current commitments, existing plans and the proposals in the 2016/17 – 2018/19 capital programme are set out at Appendix Ten for approval.

## **9 Conclusions**

- 9.1 This report sets out our response to the Medium Term Financial Forecasts for 2016/17. It proposes a balanced net revenue budget for 2016/17 of around £230m. This is despite a very surprising and disappointing finance settlement that was wholly responsible for causing an underlying £2.3m reduction requirement, which has only been temporarily supported by the transition grant, after the Executive had consistently presented balanced proposals for 2016/17 for the previous 12 months. Proposing a council tax increase of 3.75% is considered to be the only sensible and prudent approach to the financial situation we face in the medium term, while enabling some much needed one-off investment in 2016/17 to be undertaken.
- 9.2 2016/17 is the second year of the most challenging and significant element of our Investing in Stockport programme. We will have reduced underlying cash limits by around £34m over the two years 2015-17 while at the same time investing very significant one-off resources to support priority services, especially adult social care as we move into integration with health, and key enablers such as our digital by design initiative. Our focus on investing in growth can be seen not only in our expanded capital programme but in the improved council tax and business rates forecasts which support the revenue budget.
- 9.3 Our budget is more than a set of numbers - we have consulted widely on the detail of our proposals and the assumptions and principles that underpin them. We will continue this conversation with residents over the coming years as our new service models take shape, using all channels available to us to make sure we engage as wide a range of people and opinions to strengthen our understanding of how to approach our future in the face of such radical challenges. By listening in this way and continuing to work closely with others will we ensure that, together, we can create a future in which people can make the right choices for their family, and get help and support when they need it. Where we all benefit from a thriving economy in a town we are proud to call home, and our communities feel safe and resilient.
- 9.4 Coming up with future financial plans and budgets will be even more challenging. The financial platform we have built will stand us in good stead, and the skills and commitment of members and officers alike will help us rise to that challenge.

## **10 Recommendations**

It is recommended that the Council Meeting:

- agrees the Budget for 2016/17 described in the report and set out in Appendix Three;
- notes and comments upon the financial forecasts for 2016/17 to 2020/21 (Appendix Eight), and the key issues to be addressed in formulating a response to the future financial challenges facing the Council;
- passes the appropriate Council Tax resolutions which produce a Council Tax increase of 3.75% (inclusive of a 2% increase in relation to a Social Care Precept) for Council services as illustrated at Appendix Eleven;
- approves the capital programme and the funding arrangements as described in section eight of the report and set out at Appendix Nine;

- approves the prudential indicators set out in Appendix Ten; and
- notes the risk assessment of the Budget at Appendix Six and the report of the Corporate Director, Corporate and Support Services on the adequacy of proposed financial reserves and robustness of the estimates included at Appendix Seven.

## BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Michael Cullen on Tel: 0161 474 4631 or by email on [Michael.cullen@stockport.gov.uk](mailto:Michael.cullen@stockport.gov.uk)

**Provisional Local Government Finance Settlement 2016/17 and an offer to councils for future years**

**Response from Stockport Metropolitan Borough Council**

The Council welcomes the opportunity to comment on the provisional settlement.

Responses to the 17 specific consultation questions are attached.

General Comments

1. The fact that we are still awaiting details of significant funding streams for 2016/17 renders the consultation and the response we can make somewhat incomplete. In particular, the amount of public health and ILF grant available is a key consideration in taking forward our approach to integrating health and social care (incorporating decisions relating to the proposed social care precept and receipt of additional Better Care Fund).
2. While welcoming certain aspects of the settlement, insofar as it is not as bad as it might have been, we are under no illusions as to the scale of the financial challenge that faces the Council as a result of there being insufficient funding available to deal with all the spending pressures that will arise over the next four years, even if we take full advantage of the newly granted flexibility to increase council tax.
3. In simple terms, the unexpected changes included in the settlement provide Stockport with an additional financial challenge that is most prevalent in 2016/17 and 2017/18, i.e. before the additional Better Care Fund resources are available and before we could reasonably expect to have generated increased council tax income.
4. While appreciating the rationale behind the introduction of equalisation into the distribution methodology, an assumption is being made that authorities such as Stockport will increase council tax by around 3.75% in 2016/17 and in each subsequent year (amounting to just under 16% by 2019/20) to generate the level of local resource needed to compensate for the very significant reduction in revenue support grant. In addition, the amount of Better Care Fund being made available is calculated on the assumption that the social care precept will be levied each year. We are faced with the challenge of explaining to our residents this complete U-turn in government policy around council tax and why we are having to implement such increases immediately merely to balance the loss of grant support and minimise our reduction in 'core spending power'.
5. We would ask that the government considers making some form of transitional support available during 2016/17 and 2017/18 to 'smooth' the impact of the change in methodology, provided of course such support is additional to the existing local government spending control total? The Council's Executive produced a balanced budget plan in December following consultation with various stakeholders; this was based on reasonable assumptions as to the level of grant the Council would receive and the very clear position taken by central government up to that point regarding

council tax increases. The significant and unexpected changes heralded by the settlement, including the absence of a council tax freeze grant, mean that the plan for 2016/17 now has to be adjusted by some £2.6m at this late stage.

6. As you will see in the specific responses we do agree that it is reasonable to take account of council tax income in allocating central funding, but we believe that using average Band D levels rather than actual Band D levels is worthy of consideration. We strongly believe this should be recognised within the final settlement calculations, or used as the basis for protecting those authorities adversely affected in this way.
7. The definition and calculation of 'core spending power' is an improvement on the previous incarnation (which was particularly flawed by the inclusion of the Better Care Fund 'double count'). However, it is still merely an assessment of the funding that may be available to the Council (assuming council tax hikes are effected each year and the recent growth in tax base continues uninterrupted), rather than a measure of the impact of the settlement on the Council's overall financial prospects. It does not take into account the financial pressures that arise from central government policy initiatives (e.g. national living wage, apprenticeship levy, withdrawal of contracted out NI – all of which will add around £6.5m to our budget requirement by 2017/18) and the increases in demand that flow from demographic and other changes. Our latest forecasts suggest that even if we were to increase council tax in line with government expectations, we will have to reduce forecast spending by some £22m over the two years 2017/18- 2018/19. The government could recognise the additional burden caused by the above changes and provide some transitional support to help authorities deal with the consequences. This is especially relevant in relation to the National Living Wage which will impact particularly upon the social care sector prior to the receipt of additional BCF resources coming on stream.
8. Stockport acknowledges and welcomes the government's recognition of the pressures relating to the demand for adult social care services. In particular, the additional funding being made available through an improved Better Care Fund (BCF) will help alleviate some of those pressures in later years. It is disappointing however, that such funding is not available over the next two years when there is a need to invest in new ways of working with health colleagues while supporting core social care services (i.e. 'double running'). We look forward to the separate consultation regarding the distribution of the BCF, Stockport appears to fare less well than we might have expected due to the assumptions around council tax growth and the use of relative needs formula. It is clear that a significant element of the burden of supporting social care is being transferred to local council tax payers.
9. The offer of a four year settlement is one that we would wish to consider seriously. However, the lack of clarity regarding what exactly is being offered in terms of 'guaranteed' funding, the level of detail to be included, in the 'efficiency plan' and when that would be required, makes it difficult to determine at this stage whether it is an offer we could take up. We would ask that such clarity is provided at the earliest opportunity.
10. The settlement confirmed the demise of revenue support grant and the introduction of 100% business rate retention by the end of the Parliament. It will be important for planning purposes to understand fully the potential implications of this move, particularly in relation to the additional responsibilities that will be devolved to the

Authority. We look forward to a positive engagement between central and local government to determine the 'right model of devolution and the level of flexibility that councils would need in order to effectively deliver this responsibility'.



## Provisional Local Government Finance Settlement 2016/17 – Consultation

## Stockport MBC Response

No	Question	Response
1	Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?	<p>The Council accepts it is reasonable to take account of ability to raise council tax revenue as part of the methodology for allocating central funding. However, this settlement represents a missed opportunity to start to address wide variations in Band D equivalent council tax which stem from significant levels of historic under or over funding from previous settlement rounds.</p> <p>The Council believes the Council Tax element of SCF should be based on average council tax levels to eliminate district variations in Band D Council Tax whilst simultaneously affording districts with relatively low Band D levels of council tax more freedom to increase council tax under the Secretary of State's referendum criteria.</p>
2	Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?	The Council believes it would have been fairer to use the tax base figures from the latest CTB1 form (October 2015) based on average band D council tax (see also response to Q1). The council believes using the latest CTB1 figures does not significantly dilute the incentive to build new homes; particularly given that the NHB incentive is to continue for some years yet.
3	Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?	Agreed.
4	Do you wish to propose any transitional measures to be used?	The inclusion of Council Tax revenues as part of the methodology for allocating central funding was the most surprising element of the settlement; a change which was not previously signalled by the government. As a result, Councils like Stockport that rely heavily on

No	Question	Response
		<p>Council Tax receipts to provide local services suffered a worse settlement than anticipated.</p> <p>We would therefore ask that the government considers making some form of transitional support available during 2016/17 and 2017/18 to 'smooth' the impact of the change in methodology, provided of course such support is additional to the existing local government spending control total? The Council's Executive produced a balanced budget plan in December following consultation with various stakeholders; this was based on reasonable assumptions as to the level of grant the Council would receive and the very clear position taken by central government up to that point regarding council tax increases. The significant and unexpected changes heralded by the settlement, including the absence of a council tax freeze grant, mean that the plan for 2016/17 now has to be adjusted by some £2.6m at this late stage.</p> <p>As you will see in the response to question 1 (above), we do agree that it is reasonable to take account of council tax income in allocating central funding, but we believe that using average Band D levels rather than actual Band D levels is worthy of consideration. We strongly believe this should be recognised within the final settlement calculations, or used as the basis for protecting those authorities adversely affected in this way.</p> <p>Furthermore, the settlement does not take account of some significant financial pressures arising from central government policy (e.g. national living wage, apprenticeship levy, withdrawal of contracted out NI – all of which will add around £6.5m to our budget requirement by 2017/18) and the increases in demand that flow from demographic and other changes. Our latest forecasts suggest that even if we were to increase council tax in line with government expectations, we will have to reduce forecast spending by some £22m over the two years 2017/18- 2018/19. The government could recognise the additional burden caused by the above changes and provide some transitional support to help authorities deal</p>

No	Question	Response
		with the consequences. This is especially relevant in relation to the National Living Wage which will impact particularly upon the social care sector prior to the receipt of additional BCF resources coming on stream.
5	Do you agree with the Government's proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?	Insofar as NHB needs to be top sliced from settlement resources, the methodology proposed for doing so appears to be reasonable.
6	Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?	Insofar as safety net funding needs to be top sliced from settlement resources, the methodology proposed for doing so appears to be reasonable. In this regard however, the Council would urge the government to re-examine risk allocation with regard to business rates in order to 'engineer out' the need for safety net payments.
7	Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?	The Council wishes to challenge the assertion that services cost more to provide simply because of sparsity. As part of the forthcoming changes that are planned for the local government finance system, we would urge the government to commission independent research to really understand which factors materially drive the cost of providing services across local government.
8	Do you agree with the Government's proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?	Once funding ceases to be a specific grant, the Council believes there is no merit in separately identifying individual funding streams as part of SFA, SCF or CSP.
9	Do you agree with the Government's proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?	Once funding ceases to be a specific grant, the Council believes there is no merit in separately identifying individual funding streams as part of SFA, SCF or CSP.

No	Question	Response
10	Do you agree with the Government's proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?	Council Tax Freeze Grant should continue to be provided separately from RSG. If Council Tax Freeze Grant is rolled into RSG – a grant which will be phased out, perhaps the government could explain how it is possible that “councils will receive all their legacy freeze grants”.
11	Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?	Stockport Council does not receive Efficiency Support Grant as therefore has no comment to make.
12	Do you agree with the Government's proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?	Yes provided this is genuinely additional funding rather than funding top sliced from existing local government resources.
13	Do you agree with the Government's proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?	Agreed provided funding increases are not financed by top slicing other local government resources.
14	Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring-fenced for the Spending Review period?	In the light of recent flooding, it is clear significant investment in flood defences is going to be necessary for the forthcoming spending review period and beyond. Given recent events it is difficult to argue against ring-fencing but the grant to be made available is unlikely to be sufficient to meet demand for investment in flood defences and flood mitigation measures. If more funding is to be made available for flood defence investment, this should not be achieved by additional ring fencing or top slicing of local government resources which are already bearing the brunt of fiscal consolidation.
15	Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that	Agreed. In the absence of RSG or negative RSG it is appropriate to adjust tariffs and top ups in order to meet the overall reductions in local government funding.

No	Question	Response
	councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?	
16	Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?	The government may wish to consider commissioning an independent review of the burdens placed on local government by statute. Easing those burdens and obligation will provide councils with additional flexibility in order to secure the necessary spending reductions.
17	Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?	No comment to make.

## Appendix Two

### 2016/21 Medium Term Financial Plan - Changes to Forecast Savings Requirement 26 February 2015 to 16 February 2016

	Cumulative Figures				
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Savings requirement as at 26 Feb 2015	0	15,567	26,896	n/a	n/a
Starting point for 2019/20 and 2020/21				26,896	26,896
<u>Council Tax</u>					
Increase in Taxbase	(1,372)	(1,625)	(2,064)	(2,803)	(3,299)
Social Care Precept - 2% Increase	(2,534)	(2,545)	(2,560)	(2,575)	(2,585)
Incr. above Social Care Precept (1.75%)	(2,218)	(2,228)	(2,241)	(2,254)	(2,262)
Council Tax Freeze Grant	1,417	2,830	4,243	4,239	4,239
<u>Business Rates</u>					
Forecast Yield (Local Share)	(111)	646	1,093	(483)	(2,149)
Grants in lieu of Business Rates	(970)	(462)	(484)	(503)	(524)
<u>Government Grants</u>					
Revenue Support Grant (RSG)	2,149	4,959	8,895	15,944	19,019
Education Services Grant	198	599	1,401	2,215	3,232
New Homes Bonus	(2,621)	(2,639)	(1,384)	(1,298)	(1,143)
Better Care Fund			(3,111)	(6,333)	(6,333)
Public Health Grant	558	964	1,382	1,789	
Transition Grant	(1,022)	(1,009)			
<u>Cost of Service Provision</u>					
Pay Awards	(1,105)	(2,251)	(3,439)	(2,404)	(298)
Employers National Insurance	(319)	(319)	(319)	(319)	(319)
Superannuation	(155)	(228)	(309)	392	1,100
Price Inflation/National Living Wage	1,731	2,981	4,231	9,181	14,231
Apprenticeship Levy		400	400	400	400
Demand and Demographic Pressures				1,500	3,000
Highway Maintenance Plan				475	1,322
Drainage in Parks and Cemeteries	(61)	(155)	(249)	(249)	(249)
Public Health	(558)	(964)	(1,382)	(1,789)	
Empty Homes Officer	50	50	50	50	50



## Appendix Two (Continued)

### 2016/21 Medium Term Financial Plan - Changes to Forecast Savings Requirement 26 February 2015 to 16 February 2016

	Cumulative Figures				
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<u>Investing in Stockport Programme</u>					
Revision to Savings Prog. (18 Aug 2015)	600	600	600	600	600
Social Care Precept	2,534	2,545	2,560	2,575	2,585
One-off Support (16 Dec 2015)	4,667				
<u>Levies</u>					
Waste Disposal Authority	1,201	1,827	1,592	2,177	2,802
Waste Strategy Reserves	(863)	(425)			
Combined Authority	(323)	(336)	(349)	94	546
<u>Other Items</u>					
Minimum Revenue Provision	(2,486)	(2,244)	(2,013)	(1,790)	(1,577)
Airport Dividends	(600)	(600)	(600)	(600)	(600)
Collection Fund Forecast Outturn	1,310				
<b>Savings requirement as at 16 Feb 2016</b>	<b>(903)</b>	<b>15,938</b>	<b>32,839</b>	<b>45,127</b>	<b>58,684</b>

## 2016/17 Proposed Revenue Budget

<b>Portfolio</b>	<b>2016/17 Proposed Revenue Budget £000</b>
<u>Cash Limits</u>	
Independence and Wellbeing	18,581
Safe and Resilient Communities	8,778
Support and Governance	22,089
Supporting Adults	62,473
Supporting Children	22,329
Supporting Places	22,962
Thriving Economy	2,077
<b>Cash Limit</b>	<b>159,289</b>
Pay	985
Superannuation (Auto-Enrolment)	265
Price Inflation/National Living Wage	6,136
Demand Pressures	2,000
Non-Cash Limits	61,134
Priority Investments	903
<b>Total Net Expenditure</b>	<b>230,712</b>
Revenue Support Grant	(28,289)
Business Rates - District Share	(45,038)
Grants in Lieu of Business Rates	(2,478)
Grants in Lieu of Business Rates (15/16)	(528)
Central Education Services Grant	(3,357)
New Homes Bonus (Returned)	(100)
New Homes Bonus	(3,262)
Transition Grant	(1,022)
Public Health Grant	(16,487)
2015/16 Collection Fund Forecast Outturn	1,310
<b>Proposed Council Tax Requirement</b>	<b>131,461</b>

**Council Tax Requirement - Memorandum:**

<i>Social Care Precept Element</i>	2,534
<i>Council Tax Requirement (Excl. Social Care Precept)</i>	128,927

## Appendix Four

### IIS Finance Summary: Cash Limits 2016/17

	2015/16 Approved Budget £000	2016/17 Indicative Adjustment s £000	2016/17 Base Budget £000	2016/17 Proposed Reduction s £000	2016/17 One off Support £000	2016/17 Indicative Budget £000	2015 - 2017 Cumulative Reductions £000
<b>Stockport Together</b>							
Preventative Commissioning Strategy	17,042	1,901	18,943	-1,000		17,943	-4,000
Learning disability review	24,017	303	24,320	-2,100	1,000	23,220	-2,600
Integrated Health and Social Care	38,708	1,529	40,237	-4,900	3,212	38,549	-10,900
<b>Sub-Total</b>	<b>79,767</b>	<b>3,733</b>	<b>83,500</b>	<b>-8,000</b>	<b>4,212</b>	<b>79,712</b>	<b>-17,500</b>
<b>Stockport Family</b>							
0-25 SEND reform	4,964	123	5,087	-300	25	4,812	-800
Integrated prevention / safeguarding family services	25,063	605	25,668	-3,200		22,468	-5,200
<b>Service Redesigns</b>							
Leisure facilities*	850	72	922	-430	430	922	-860
Markets, museum and cultural attractions	1,082	27	1,109	-400		709	-400
Highways and engineering services	3,730	-39	3,691	-500		3,191	-500
Public Safety and Protection Service	3,127	151	3,278	-500		2,778	-700
Library Management Efficiencies	2,930	93	3,023	-200		2,823	-200
Neighbourhood Management	735	15	750	-200		550	-200
HRA / General Fund	0	0	0	-500		-500	-1,000
Public Realm and SSK Operating Model	19,042	43	19,085	-2,100		16,985	-2,900
Facilitating accelerated growth	1,462	61	1,523	0		1,523	-550
Information, advice and guidance	2,490	73	2,563	-250		2,313	-250
Corporate and support services	20,261	768	21,029	-2,000		19,029	-3,000
Revenues and benefits	1,367	88	1,455			1,455	
Elections	515	4	519			519	
<b>Sub-Total</b>	<b>87,618</b>	<b>2,084</b>	<b>89,702</b>	<b>-10,580</b>	<b>455</b>	<b>79,577</b>	<b>-16,560</b>
<b>Grand Total</b>	<b>167,385</b>	<b>5,817</b>	<b>173,20</b>	<b>-18,580</b>	<b>4,667</b>	<b>159,289</b>	<b>-34,060</b>

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Note - Indicative adjustments reflect previously agreed adjustments to the 2016/17 base cash limits

## Appendix Five

### Estimate of Income Generated from Fees and Charges

Service Area	Forecast Yield 2015/16 £000	Forecast Yield 2016/17 £000	Increase/ (Decrease) £000
<b><u>Independence and Wellbeing</u></b>			
<b>Learning and Employment:</b>			
Adult Education	145	45	(100)
<b>Independence and Wellbeing - subtotal</b>	<b>145</b>	<b>45</b>	<b>(100)</b>
<b><u>Safe and Resilient Communities</u></b>			
Libraries	175	175	0
Music Centre	107	107	0
<b>Safe and Resilient Communities - subtotal</b>	<b>282</b>	<b>282</b>	<b>0</b>
<b><u>Supporting Adults</u></b>			
Community Meals	170	0	(170)
Disabled Parking Blue Badges	25	45	20
Care charges – non-residential services	4,434	4,888	454
<b>Supporting Adults - subtotal</b>	<b>4,629</b>	<b>4,933</b>	<b>304</b>

## Appendix Five (Continued)

Service Area	Forecast Yield 2015/16 £000	Forecast Yield 2016/17 £000	Increase/ (Decrease) £000
<b><u>Supporting Places</u></b>			
<b>Culture and Leisure:</b>			
Art Gallery and Museums	162	162	0
<b>Network Assets:</b>			
Footpath Crossings	90	90	0
<b>Parks and Open Spaces:</b>			
Allotments	19	19	0
Pitch Hire, incl Bowls and Golf	166	166	0
Country Park Car Parks	84	84	0
Park Events	11	11	0
<b>Parking and School Crossing:</b>			
Car Parking	3,394	3,394	0
<b>Public Protection:</b>			
Burial/Cemetery Fees	385	385	0
Dog Warden Service	10	10	0
Licensing - Taxis	410	410	0
Licensing - Public Entertainment & Gambling Fees	245	245	0
Pest Control	255	255	0
Weights and Measures	9	9	0
Trading Standards, including water sampling and supplies	711	711	0
Environmental charges, Intruder Alarms and Landfill enquiries	32	32	0
<b>Refuse Collection:</b>			
Refuse Collection	66	66	0
<b>Supporting Places - subtotal</b>	<b>6,049</b>	<b>6,049</b>	<b>0</b>

## Appendix Five (Continued)

Service Area	Forecast Yield 2015/16 £000	Forecast Yield 2016/17 £000	Increase/ (Decrease) £000
<b><u>Support and Governance</u></b>			
Registrars	357	400	43
<b>Revenues and Benefits:</b>			
Leisure Key	10	10	0
<b>Estate and Asset Management:</b>			
Stopford House carparking	100	100	0
Venue Management	281	281	0
Garages and shop rentals	0	820	820
<b>Legal and Democratic Governance:</b>			
Conveyancing fees	180	180	0
<b>Support and Governance - subtotal</b>	<b>928</b>	<b>1,791</b>	<b>863</b>
<b><u>Thriving Economy</u></b>			
<b>Culture and Leisure:</b>			
Markets	221	221	0
<b>Planning:</b>			
Planning	1,046	945	(101)
Building Regulations	387	387	
<b>Strategic Housing:</b>			
Care Call	585	590	5
Hostels for the homeless Brindale House	705	698	(7)
<b>Thriving Economy - subtotal</b>	<b>2,944</b>	<b>2,841</b>	<b>(103)</b>
<b>Total estimate income</b>	<b>14,977</b>	<b>15,941</b>	<b>964</b>



## Appendix Six

### 2016/17 Executive Revenue Budget - Risk Assessment and Calculation of Minimum Level of General Fund Balances

Item	Budget Assumption £000/%	Possible Variance £000/%	Impact Cost/ (Benefit) £000
<u>Previous Financial Year</u>			
Variance between forecast & actual outturn	167,385	0.5%	837
<u>Inflation</u>			
Price Inflation/National Living Wage	6,136	10.0%	614
<u>Income</u>			
Yield from Sales, Fees and Charges	(15,941)	-5.0%	797
<u>Demand/Demographics</u>			
Adult Social Care Purchasing Budgets	41,600	5.0%	2,081
Children's Social Care	15,828	5.0%	791
Public Health Grant	16,487	5.0%	824
Highway Maintenance	4,120	15.0%	618
Winter Maintenance - Severe Weather	458	20.0%	92
<u>Volumes</u>			
Waste Collection & Disposal	(Covered by Waste Strategy Reserve)		
<u>Capital Programme</u>			
- Capital Receipts Not Realised/Re-Phased	2,453	152	152
- Capital Financing Costs (Re-phasing)	4,251	(106)	(106)
<b>Risk Assessment of Budget</b>			<b>6,700</b>
Major Disaster/Emergency	7,500	33.33%	2,500
<b>Minimum Level of General Fund Balances</b>			<b>9,200</b>

**Local Government Act 2003 – Section 25**

**Statement on the Adequacy of Proposed Financial Reserves  
and Robustness of the Estimates**

Report of the Corporate Director for Corporate and Support Services

**1 General Fund Revenue Balances**

- 1.1 A risk assessment of the Executive's budget proposals has concluded that the recommended minimum level of general balances for 2016/17 is £9.2m. The forecast outturn for 2015/16 anticipates general balances as at 31 March 2015 will be in line with that requirement prior to taking account of any cash limit and non-cash limit surpluses.
- 1.2 The Council's reserves and balances are reviewed annually in line with the Medium Term Financial Strategy, best practice guidance on Local Authority Reserves and Balances, and as required by the Local Government Act 2003. Use of reserves and balances are monitored on a regular basis to identify and report any proposals which carry ongoing risks or financial implications.

**2 Processes and Monitoring**

- 2.1 The Authority is a relatively low spending organisation and has, for many years, operated within very tight financial constraints. Robust budget monitoring and a thorough budget process, in which all demand led and other pressures as well as realistic spending reductions are considered, allows the Authority to operate with a relatively low level of general balances. The recommended minimum level of general balances is only adequate for the forthcoming financial year and for the financial planning period through the commitment of Corporate Directors and Executive Councillors to control spending.
- 2.2 Known and forecast increases in spending have been recognised by uplifts in cash limits and / or variations to spending plans, including contingencies. Similarly, opportunities to make reductions in spending at current service levels have also been reflected in the Budget. The proposals put forward by the Executive in response to identified budget pressures, and those relating to additional investment have been subject to detailed scrutiny and risk assessment. In particular, the balance struck between ongoing reductions in base budget allocations and the targeted investment of one-off resources has been taken into account.
- 2.3 As in previous years, it is imperative in 2016/17 that Portfolio Holders, the Executive and Scrutiny Committees critically review the regular monitoring statements to ensure that the reasons for any projected surpluses or deficits are properly identified and that resulting actions are implemented in a timely manner.

### **3 Risk Assessment**

- 3.1 The 2015/16 projected outturn, the 2016/17 indicative budget and the Executive's proposed budget have all been examined and challenged to ensure that strategic, operational and financial risks have all been 'priced' into the estimates. The calculation of the recommended minimum level of general balances takes account of this as well as the key risks and uncertainties surrounding the budget estimates and proposals.
- 3.2 The recommended minimum level of balances for 2016/17 is the same as the level established for 2015/16. This reflects the fact that risk levels surrounding this budget are considered to be broadly similar to the current year.
- 3.3 There is also continuing risk and volatility surrounding Council Tax and Business Rates revenues. This is due to factors including the localisation of Council Tax Support Schemes and Business Rates Retention. In the short-term, these risks are managed as part of the Council's Collection Fund arrangements and so are not reflected in the calculation of minimum general fund balances.

### **4 Conclusion**

On the basis of the above-mentioned financial planning and monitoring processes together with the risk assessment of the budget, the Corporate Director, Corporate and Support Services is able to report (in accordance with section 25 of the Local Government Act 2003) that the estimates made for the purposes of the calculation of the budget are robust and the level of reserves and balances are adequate.

## Appendix Eight

### 2016/21 Medium Term Financial Forecast

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<b>Resources</b>					
Stockport MBC Council Tax	128,927	129,494	130,250	131,006	131,510
Social Care Precept	2,534	2,545	2,560	2,575	2,585
Revenue Support Grant	28,289	17,277	10,240	3,191	
Business Rates - District Share	45,038	45,924	47,279	48,791	102,761
Grants in Lieu of Business Rates	2,478	2,527	2,602	2,685	
Grants in Lieu of Business Rates (15/16)	528				
Central Education Services Grant	3,357	2,848	1,831	1,017	
New Homes Bonus (Returned)	100				
New Homes Bonus Grant	3,262	3,380	2,124	2,038	
Better Care Fund			3,111	6,333	
Transition Grant	1,022	1,009			
Public Health Grant	16,487	16,081	15,663	15,256	
2015/16 Coll. Fund Forecast Outturn	(1,310)				
	<b>230,712</b>	<b>221,085</b>	<b>215,660</b>	<b>212,892</b>	<b>236,856</b>
<b>Expenditure</b>					
Cash Limits	159,289	155,550	156,154	156,505	183,525
Pay	985	1,986	3,004	4,039	6,145
Superannuation/Auto-Enrolment	265	1,577	2,896	3,597	4,305
Price Inflation/National Living Wage	6,136	10,792	15,592	20,542	25,592
Demand Pressures	2,000	2,500	3,000	3,500	4,000
Apprenticeship Levy		400	400	400	400
Non-Cash Limits	61,134	64,218	67,453	69,436	71,573
Priority Investments	903	0	0	0	0
	<b>230,712</b>	<b>237,023</b>	<b>248,499</b>	<b>258,019</b>	<b>295,540</b>
<b>Cumulative Savings Requirement</b>	<b>0</b>	<b>15,938</b>	<b>32,839</b>	<b>45,127</b>	<b>58,684</b>

### Assumptions

	2016/17	2017/18	2018/19	2019/20	2020/21
SMBC C.Tax (Excl Soc Care Precept)	1.75%	0%	0%	0%	0%
Social Care Precept	2.0%	0%	0%	0%	0%
Settlement Core Funding	-6.5%	-5.1%	-3.1%	-3.1%	n/a
Settlement Funding Assessment	-16.0%	-14.1%	-9.2%	-9.9%	n/a
Revenue Support Grant	-33.3%	-38.9%	-40.7%	-68.8%	n/a
Pay Award	1.0%	1.0%	1.0%	1.0%	2.0%
Employer's Pension Contribution	19.0%	20.0%	21.0%	22.0%	23.0%
Waste Authority Levy	9.9%	9.8%	6.1%	2.7%	2.8%
Combined Authority Levy	0.1%	4.0%	4.0%	2.0%	2.0%

## Capital Programme by Portfolio

<b>Safe and Resilient Communities Capital Programme</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 onwards £000</b>
Early Years	155	0	0	0
Primary Sector	6,999	0	0	0
Secondary Sector	1,198	0	0	0
Funding to be allocated	345	1,888	0	0
Individual School Schemes	723	600	0	0
<b>TOTAL</b>	<b>9,420</b>	<b>2,488</b>	<b>0</b>	<b>0</b>

<b>Resources</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
Capital Grants	7,961	2,488	0	0
Unsupported Borrowing	1,093	0	0	0
External Contributions	366	0	0	0
<b>TOTAL</b>	<b>9,420</b>	<b>2,488</b>	<b>0</b>	<b>0</b>

<b>Supporting Adults Capital Programme</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 onwards £000</b>
Woodbank Market Garden Scheme	15	0	0	0
IT Infrastructure	30	0	0	0
Common Assessment Framework	318	0	0	0
Transforming Adult Social Care	30	0	0	0
Residential Care Sector Support	144	0	0	0
Equipment Purchases	92	0	0	0
Grant allocations - remaining balance	1,377	0	0	0
<b>TOTAL</b>	<b>2,006</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Resources</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
Capital Grants	2,006	0	0	0
<b>TOTAL</b>	<b>2,006</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Appendix Nine (Continued)

<b>Supporting Children Capital Programme</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 onwards £000</b>
Short breaks for disabled children	14	0	0	0
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Resources</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
Capital Grants	14	0	0	0
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Supporting Places Capital Programme</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 onwards £000</b>
<b>Highways</b>				
Street Lighting	560	560	0	0
LTP and SEMMMS Integrated Transport	2,060	1,100	0	0
Highways Structures	831	743	0	0
SEMMMS Relief Road	32,242	21,235	9,161	30,396
Section 278 schemes	2,000	2,000	0	0
Drainage	300	300	0	0
Studies and Transport Minor Schemes	30	30	0	0
Air Quality Grant	85	0	0	0
PROW	60	60	0	0
District Centres	200	200	0	0
Town Centre Access Package	17,510	16,187	15,915	12,447
Major Scheme Development				
Highways Investment Programme	12,068	12,275	12,681	44,298
	<b>67,946</b>	<b>54,690</b>	<b>37,757</b>	<b>87,141</b>
<b>Other schemes</b>				
Schemes in Parks	40	40	40	120
Bramhall Hall	723	0	0	0
Leisure Strategy	6,479	0	0	0
	<b>7,242</b>	<b>40</b>	<b>40</b>	<b>120</b>
<b>TOTAL</b>	<b>75,188</b>	<b>54,730</b>	<b>37,797</b>	<b>87,261</b>

## Appendix Nine (Continued)

<b>Resources</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
Capital Grants	54,343	40,377	24,346	44,750
Directly Funded Borrowing	2,967	450	450	0
Unsupported Borrowing	15,125	11,903	13,001	42,511
External Contributions	30	0	0	0
Commutated Sums	2,000	2,000	0	0
Revenue Contributions (RCCO)	723	0	0	0
<b>TOTAL</b>	<b>75,188</b>	<b>54,730</b>	<b>37,797</b>	<b>87,261</b>

<b>Support and Governance Capital Programme</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 onwards £000</b>
Asset Management Plan	6,928	2,890	950	0
ICT Infrastructure and Data Centre	124	0	0	0
Reprovision of Dialstone Facility	3,867	0	0	0
SSK Fleet Replacement Strategy	4,928	360	0	0
Stockport Homes New Headquarters	5,955	0	0	0
<b>TOTAL</b>	<b>21,802</b>	<b>3,250</b>	<b>950</b>	<b>0</b>

<b>Resources</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
Capital Grants	45	0	0	0
Directly Funded Borrowing	11,946	360	0	0
Unsupported Borrowing	4,512	2,815	950	0
Capital Receipts	4,803	0	0	0
External Contributions	49	0	0	0
Revenue Contributions (RCCO)	447	75	0	0
<b>TOTAL</b>	<b>21,802</b>	<b>3,250</b>	<b>950</b>	<b>0</b>



## Appendix Nine (Continued)

<b>Thriving Economy Capital Programme</b>	<b>2016/17 Programme £000</b>	<b>2017/18 Programme £000</b>	<b>2018/19 Programme £000</b>	<b>2019/20 onwards £000</b>
Offerton Precinct Development	173	0	0	0
Stockport Exchange (Phase 2)	11,758	0	0	0
Supporting local businesses (PIF 2011/12)	7	0	0	0
Brinnington Regeneration (PRG)	39	0	0	0
Portas Pilot Bid match-funding (PIF 2012/13)	34	0	0	0
Redrock Development Scheme	36,772	0	0	0
Aurora Stockport (formerly Gorsey Bank)	2,548	8,262	0	0
Markets and Underbanks	2,000	4,388	0	0
Swann Lane (The Coach House)	159	0	0	0
Arc at Castle Yard	380	0	0	0
Plot 3, Gorsey Mount Street	0	0	0	0
GM Broadband	969	0	0	0
HRA - general capital schemes	20,485	8,692	15,408	0
HRA - new builds	12,274	3,955	1,636	0
Affordable Homes (SHL)	14,474	8,758	0	0
Disabled Facilities Grant	146	0	0	0
Strategic Housing - Renewal	530	0	0	0
<b>TOTAL</b>	<b>102,748</b>	<b>34,055</b>	<b>17,044</b>	<b>0</b>

<b>Resources</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
Capital Grants	2,040	1,875	150	0
Directly Funded Borrowing	76,775	21,962	3,760	0
Unsupported Borrowing	1,741	0	0	0
Capital Receipts	723	1,760	0	0
External Contributions	1,342	0	0	0
Revenue Contributions (RCCO)	11,875	0	4,464	0
HRA funding from MRR	8,252	8,458	8,670	0
<b>TOTAL</b>	<b>102,748</b>	<b>34,055</b>	<b>17,044</b>	<b>0</b>

# Capital Prudential Indicators 2016/17 to 2019/20

The capital prudential indicators for the Council for the next three years are given below. Indicators are based on current commitments and existing plans in the 2015/16 – 2017/18 Capital Programme. Some of the approved schemes span beyond the 2016/17 three year capital programme and the indicators for these are also included.

## Capital Expenditure

The following table sets out the planned capital expenditure, split into General Fund (Non-HRA) and HRA, for each of the years in the proposed programme.

<b>Capital Expenditure</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20 onwards</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund (non HRA)	178,419	81,876	38,747	87,261
HRA	32,759	12,647	17,044	0
<b>Total</b>	<b>211,178</b>	<b>94,523</b>	<b>55,791</b>	<b>87,261</b>

The following tables set out the resources available for the capital programme highlighting the prudential borrowing required split into General Fund (i.e. Non-HRA) and HRA.

<b>Capital Expenditure</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20 onwards</b>
<b>General Fund (non-HRA)</b>	<b>General Fund</b>	<b>General Fund</b>	<b>General Fund</b>	<b>General Fund</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Total Capital Expenditure</b>	178,419	81,876	38,747	87,261
<b>Financed By:</b>				
Capital Grants	64,934	42,865	24,346	44,750
Capital Receipts	5,292	0	0	0
Capital Contributions	3,787	2,000	0	0
Revenue Contribution	1,170	75	0	0
<b>Prudential Borrowing</b>	<b>103,236</b>	<b>36,936</b>	<b>14,401</b>	<b>42,511</b>

## Appendix Ten (Continued)

<b>Capital Expenditure HRA</b>	<b>2016/17 HRA £000</b>	<b>2017/18 HRA £000</b>	<b>2018/19 HRA £000</b>	<b>2019/20 onwards HRA £000</b>
<b>Total Capital Expenditure</b>	32,759	12,647	17,044	0
<b>Financed By:</b>				
Capital Grants	1,475	1,875	150	0
Capital Receipts	234	1,760	0	0
Capital Contributions	0	0	0	0
Revenue Contribution	20,127	8,458	13,134	0
<b>Prudential Borrowing</b>	<b>10,923</b>	<b>554</b>	<b>3,760</b>	<b>0</b>

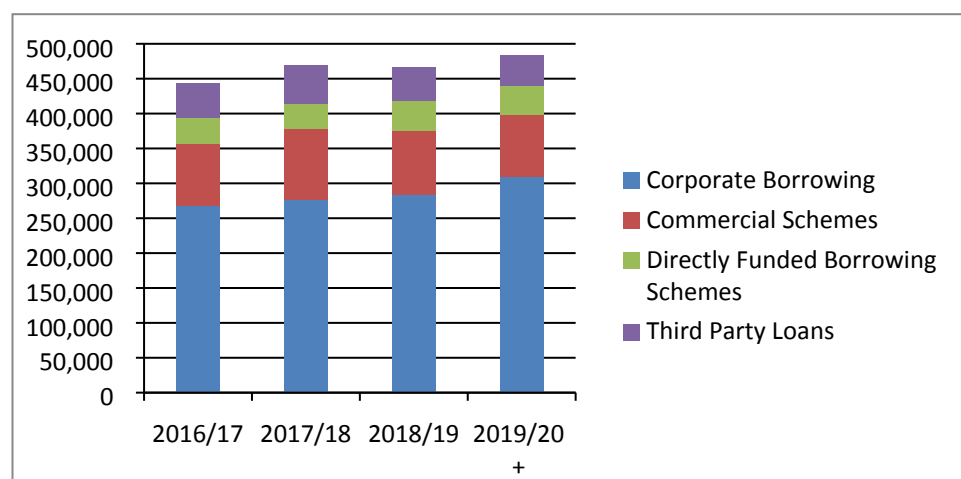
### Capital Financing Requirement

This measures the Council's cumulative underlying need to borrow as a result of capital investment and is split into General Fund (Non-HRA) and HRA.

<b>Capital Financing Requirement</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 onwards £000</b>
General Fund (non HRA)	444,191	469,774	468,937	486,273
HRA	142,055	141,810	144,725	142,943
<b>Total</b>	<b>586,246</b>	<b>611,584</b>	<b>613,662</b>	<b>629,216</b>

The Capital Financing Requirement (CFR) for the General fund is increasing over the medium term reflecting the amount of prudential borrowing being used to support capital investment. This is further analysed in the graph below, which shows the proportion of CFR relating to Corporate Borrowing, Commercial Schemes, Directly Funded Borrowing Schemes and Third Party Loans.

### General Fund Capital Financing Requirement Analysis



## Appendix Ten (Continued)

Corporate Borrowing makes up a large proportion (60%) of the General Fund CFR in 2016/17 and most of this relates to historic supported borrowing. There are a number of current Corporate Borrowing schemes, including the Highways Investment Programme and Primary Schools Expansions schemes, and these account for the increases in Corporate Borrowing going forward.

### Ratio of financing costs to net revenue stream

This is the percentage of the revenue budget set aside each year to service debt financing costs. The table below sets out the ratio for the General Fund corporate borrowing and then for total financing costs.

General Fund	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
<i>Net Revenue Stream</i>	<i>210,580</i>	<i>201,152</i>	<i>195,058</i>	<i>190,288</i>
Corporate Borrowing Financing Costs	10,051	11,877	12,865	13,057
<b>Ratio to net revenue stream</b>	<b>4.77%</b>	<b>5.90%</b>	<b>6.60%</b>	<b>6.86%</b>
Total Financing Costs	16,612	20,072	21,108	21,008
<b>Ratio to net revenue stream</b>	<b>7.89%</b>	<b>9.98%</b>	<b>10.82%</b>	<b>11.04%</b>

### General Fund Ratio of Financing Costs to Net Revenue Stream

The graphs below illustrate the proportion of the General Fund ratio of financing costs to net revenue stream. The left hand graphs relates to Corporate Borrowing only and the right hand graph shows the total financing costs ratio, including Corporate Borrowing, Commercial Schemes, Directly Funded Borrowing Schemes and Third Party Loans.



## Appendix Ten (Continued)

There is a significant amount of prudential borrowing in the 2016/17 to 2018/19 capital programme and this is reflected in the increasing ratio of financing costs to net revenue stream for the General Fund shown in the table above, i.e. a larger proportion of the revenue budget will be required to service debt.

As noted above, historic supported borrowing makes up a large proportion, around 70%, of the Corporate Borrowing. This borrowing was being repaid by charging Minimum Revenue Provision (MRP) at 4% per annum (regulatory method). There is a proposed change set out in the Treasury Management Strategy Report (elsewhere on the agenda), whereby the MRP will be charged using the equal instalments method over a period of 50 years with effect from 2015/16. This will produce lower repayments initially but is considered prudent as this borrowing will be fully repaid after 50 years whereas it is never fully repaid under the regulatory method.

It is important to note that for prudential borrowing to be approved for Commercial Schemes, Directly Funded Borrowing Schemes and Third Party Loans, they must be able to demonstrate that the borrowing is sustainable and there is a direct benefit to be gained from the investment, for example reduced revenue costs or increased income streams, to help ensure that the borrowing costs are affordable. The repayments will come from portfolio cash limits and external sources, including the repayments of third party loans, which contribute a considerable amount towards the financing costs. This helps demonstrate that, although the ratio of financing costs to net revenue stream is increasing, the new prudential borrowing being undertaken is largely invest-to-save in nature, therefore should be sustainable and affordable. However, it also illustrates the potential risk of the amount of revenue budget committed for servicing the borrowing, in other words, if the planned revenue savings or income generation do not materialise as a result of the capital investment or third party loans are not repaid, then these costs will fall to the Council's revenue budget.

The table below sets out the ratio of financing costs to net revenue stream for the HRA.

<b>HRA</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Net Revenue Stream	54,236	54,469	54,735	54,688
Total Financing Costs	5,980	6,296	6,256	6,256
Ratio	11.03%	11.56%	11.43%	11.44%

### Incremental impact of new capital investment decisions on Council Tax and Housing Rents

The table below sets out an estimate of the direct impact of the new capital investment (General Fund) through corporate borrowing in the capital programme on Council Tax (Band D) and this can be compared to the impact of all borrowing.

## Appendix Ten (Continued)

<b>General Fund</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Estimate costs for Corporate Borrowing	1,378	923	903	869
<b>Incremental Impact on Council Tax</b>	<b>£15.19</b>	<b>£10.18</b>	<b>£9.96</b>	<b>£9.58</b>
All Borrowing costs	6,281	2,306	870	869
<b>Incremental Impact</b>	<b>£69.25</b>	<b>£25.43</b>	<b>£9.59</b>	<b>£9.58</b>

The table below sets out the incremental impact of new capital investment decisions on Housing Rents (i.e. HRA).

<b>HRA</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Borrowing costs	670	35	243	0
<b>Incremental Impact on Housing Rents</b>	<b>£1.14</b>	<b>£0.06</b>	<b>£0.41</b>	<b>£0.00</b>

### Sensitivity Analysis

There are a number of assumptions made when forecasting the Council's financing costs, e.g. future interest rates and the continued Treasury Management strategy of using Council resources to finance capital expenditure instead of external borrowing, i.e. internal borrowing. The table below illustrates the impact on financing costs of changes to some of the key parameters.

<b>General Fund</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Total Financing Costs	16,612	20,072	21,108	21,008
Interest rate increase +1%	2,315	2,156	2,301	2,318
Income stream reduction -10%	536	814	1,226	948
Reduction in funds to support internal borrowing -25%	1,482	2,422	2,650	2,668
Total Impact on financing costs	20,945	25,464	27,285	26,942

The table below illustrates the revenue implications of borrowing £10m to finance capital expenditure. The costs incurred include the interest charge on the amount borrowed, which is based on a Public Works Loan Board (PWLb) maturity loan, and the MRP charge. The MRP charge can be on an annuity or an equal instalments basis per the Council's MRP policy.

## Appendix Ten (Continued)

Revenue Implications of Borrowing £10m over periods of 5 through to 40 years

	<b>PWLB Maturity rates as at 28 Jan 2016</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
<b>Annuity Basis</b>					
5 Years	1.85%	2,129	2,157	2,185	2,213
10 Years	2.50%	1,167	1,185	1,202	1,221
25 Years	3.24%	605	613	621	630
40 Years	3.08%	434	438	442	447
<b>EIP Basis</b>					
5 Years	1.85%	2,185	2,185	2,185	2,185
10 Years	2.50%	1,250	1,250	1,250	1,250
25 Years	3.24%	724	724	724	724
40 Years	3.08%	558	558	558	558



**2016/17 Proposed Council Tax Including Police and Fire Precepts**

	<b>2016/17 Proposed £000</b>
<u>Council Tax Requirement and Precepts</u>	
Stockport MBC Council Tax Requirement	131,461
GM Police and Crime Commissioner	14,238
GM Fire Authority	6,255
Stockport MBC Requirement incl. Police and Fire	151,954
-	
<u>Council Tax (Band D equivalent)</u>	<b>£</b>
Stockport MBC Services (3.75% Increase)	1,449.44
GM Police and Crime Commissioner	157.30
GM Fire Authority	58.78
Stockport MBC including Police and Fire	1,665.52



## **Council Tax 2016/17**

### **Report of the Deputy Leader of the Council** **(Executive Councillor for Support and Governance)**

#### **1 Background**

- 1.1 The purpose of this report is to enable the Council to calculate and set the Council Tax for 2016/17. The Local Government Finance Act 1992 requires billing authorities in England to calculate a Council Tax Requirement for the year. With regard to precepts, levels have been confirmed and are set out at paragraphs 1.3 and 1.4 below.

#### **Stockport MBC Council Tax Requirement**

- 1.2 The Council Meeting is asked to approve the Council Tax Requirement for Stockport MBC as being £TBC. This results in a Band D Council Tax equivalent figure of £TBC.

#### **Police and Crime Commissioner for Greater Manchester**

- 1.3 On 25 February 2016, the Police and Crime Commissioner for Greater Manchester determined a precept for Stockport MBC of £14,266,638 for the financial year 2016/17. This results in a Band D Council Tax equivalent figure of £157.30.

#### **Greater Manchester Fire and Rescue Authority**

- 1.4 Greater Manchester Fire and Rescue Authority met on 11 February 2016 and set their precept for Stockport MBC at £5,331,228 for the financial year 2016/17. This results in a Band D Council Tax equivalent figure of £58.78.

#### **2 Recommendations**

It is recommended that the Council Meeting

- Adopt the formal Council Tax Resolutions set out at Appendix One.
- Note the calculation of Aggregate Amounts as directed by Section 31A of the Local Government Finance Act 1992 set out at Appendix Two.

## COUNCIL TAX AND BUDGET 2016/17

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**The Council Meeting is recommended to resolve as follows:**

1. That it be noted that on 16 December 2015, the following amount was approved by the Executive Committee as the Council's Council Tax Base for the financial year 2016/17:
  - (a) 90,697.7 for the whole Council area [Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the "Act")]
  
2. That the Council Meeting approve the Council Tax Requirement for the Council's own purposes for 2016/17 as being £TBC
  
3. That the following amounts be calculated by the Council for the year 2016/17 in accordance with sections 31 to 36 of the Local Government Finance Act 1992:
  - (a) £TBC being the aggregate of the amounts which the Council estimates for the items set out in section 31A(2) of the Act (Appendix Two).
  - (b) £TBC being the aggregate of the amounts which the Council estimates for the items set out in section 31A(3) of the Act (Appendix Two).
  - (c) £TBC being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with section 31A(4) of the Act, as its Council Tax Requirement for the year (Item R in the formula in Section 31B of the Act). (Appendix Two).
  - (d) £TBC being the amount at 3(c) above, all divided by Item T (1(a) above), calculated by the Council, in accordance with section 31B of the Act, as the basic amount of its Council Tax for the year.
  - (e) £TBC being the aggregate amount of all special items referred to in section 34(1) of the Act
  - (f) £TBC being the amount at 3(d) above less the result given by dividing the amount at 3(e) above by the amount by Item T (1(a) above), calculated by the Council, in accordance with section 34(2) of the Act, as the basic amount of its council tax for the year for dwellings in those parts of its area to which no special item relates.

## Appendix One ctd.

4. That it be noted that for the year 2016/17 the Police and Crime Commissioner for Greater Manchester and the Greater Manchester Fire and Rescue Authority have issued precepts to the Council in accordance with section 40 of the Local Government Finance Act 1992, for each category of dwellings in the Council's area as indicated in the table below.
5. That the Council, in accordance with Sections 30 to 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2016/17 for each part of its area and for each of the categories of dwellings.

Valuation Bands								
Authority	£							
	A	B	C	D	E	F	G	H
Stockport Metropolitan Borough Council	TBC	TBC	TBC	TBC	TBC	TBC	TBC	TBC
Police and Crime Commissioner for Greater Manchester	104.87	122.34	139.82	157.30	192.26	227.21	262.17	314.60
Greater Manchester Fire and Rescue Authority	39.18	45.71	52.24	58.78	71.84	84.90	97.96	117.56

### AGGREGATE OF COUNCIL TAX REQUIREMENTS

	A	B	C	D	E	F	G	H
Stockport Metropolitan Borough Council Area	TBC	TBC	TBC	TBC	TBC	TBC	TBC	TBC

6. That the Council, in accordance with section 52ZB of the Local Government Finance Act 1992 hereby determines that the Council's relevant basic amount of council tax for 2016/17 is not excessive in accordance with the principles determined by the Secretary of State under section 52ZC of the Act.

## STOCKPORT MBC

**CALCULATION OF AGGREGATE AMOUNTS UNDER SECTION 31A OF THE  
LOCAL GOVERNMENT FINANCE ACT 1992**

	<b>GROSS EXPENDITURE</b>	<b>GROSS INCOME</b>	<b>NET EXPENDITURE</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Stockport Services			
Add Levies by Other Organisations:			
- Combined Authority			
- Waste Disposal Authority			
- Environment Agency			
Less Appropriations To/From Reserves:			
- General Fund Balances			
- Earmarked Reserves			
<b>COUNCIL TAX REQUIREMENT</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>

Note 1

Note 2

**Note 1: This figure represents the aggregate of the amounts estimated for the items set out in section 31A(2) of the Local Government Finance Act 1992.**

**Note 2: This figure represents the aggregate of the amounts estimated for the items set out in section 31A(3) of the Local Government Finance Act 1992.**

## **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY 2016/17**

Report of the Corporate Director for Corporate and Support Services

### **KEY HIGHLIGHTS REPORT**

#### **1 Introduction and Purpose of Report**

- 1.1 The Council has delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource Management and Governance Scrutiny Committee (CRMG). As such, the views of CRMG were sought and any opinions or suggestions made have been taken into account when formulating the Council's strategies for treasury management in 2016/17.
- 1.2 This comprehensive report sets out the Council's Treasury Strategies for 2016/17 which are constructed in full compliance with the CIPFA Treasury Management in Public Services Code of Practice and the Council's Treasury Management Policy Statement and Practices.

#### **2 Capital Plans and Prudential Indicators**

This specifies the Capital Plans and the Prudential Indicators for 2016/17-2018/19; these are detailed in Sections 3 and 4 of the full report and include Capital Expenditure forecasts for approval and the Council's borrowing need (Capital Financing Requirement).

#### **3 The Minimum Revenue Provision (MRP) Policy Statement for 2015/16 and 2016/17**

- 3.1 The Council is required to settle an element of its non-HRA Capital Financing Requirement (CFR) each year by way of a revenue charge (the Minimum Revenue Provision, 'MRP'). Local Authorities may also provide additional 'Voluntary Revenue Provision' if they wish to do so.
- 3.2 Guidance recommends the preparation of an annual statement of policy on making MRP for submission to the Council Meeting for approval. The terms of the original statement may be revised during the year subject to the revised statement being approved by the Council Meeting at that time. The guidance presents four 'ready-made' options for calculating MRP, but other options are not ruled out provided they are consistent with the statutory duty to make prudent provision.
- 3.3 The MRP Policy Statement was reviewed and amended in 2015/16 to ensure it continues to comply with the statutory duty to make prudent provision.
- 3.4 The Council's MRP Policy Statement will be reviewed on at least an annual basis.
- 3.5 The Council's revised approach to calculating MRP with effect from 1 April 2015 is set out in Section 5 of the full report.

#### **4 Treasury Management Strategy (TMS) 2016/17**

- 4.1 The Treasury Management Service ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet its service activity. This will involve both the organisation of the cash flow, and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

##### Current Portfolio Position

- 4.2 The Council's Treasury forecast portfolio position at 31 March 2016 with forward projections is given in paragraph 6.1 of the main report which highlights the Council's under-borrowed position.

##### Treasury Limits 2016 to 2018

- 4.3 Proposed prudential and treasury indicators for 2016 to 2018 are summarised in Appendix 1 for approval; these provide forward estimates of treasury activity and capital expenditure.

##### Prudential Indicators: Limits to Borrowing Activity

- 4.4 These limits are based on the Council's current approved plans for capital expenditure and financing and are affordable and prudent.

##### Operational Boundary

- 4.5 The limit beyond which external debt is not normally expected to exceed for 2016/17 is £650m

##### Authorised Limit

- 4.6 The limit beyond which external debt is prohibited for 2016/17 is £675m.

##### Interest Rate View

- 4.7 A detailed interest rate forecast for the next three years is included in Appendix 2.

##### Economy

- 4.8 UK Gross Domestic Product (GDP) growth in 2015 has been more subdued than previously predicted and is expected to be around 2%. UK growth is expected to remain at 2.5% to 2.7% over the next three years, however, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report raised particular concerns for the potential impact of these factors on the UK.
- 4.9 The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur



being pushed back to quarter four of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

- 4.10 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter two of 2015, but then pulled back to 2.0% in quarter three. The run of strong monthly increases in non-farm payroll figures for growth in employment in 2015 prepared the way for the Federal Reserve to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own Monetary Policy Committee.

#### Key Treasury Management Implications

- 4.11 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter four of 2016. The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in the Base Rate, and the eventual unwinding of Quantitative Easing (QE).
- 4.12 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this continues to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.
- 4.13 There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.
- 4.14 Investment returns are likely to remain relatively low during 2016/17 and beyond. The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential issues that could be growing on both the international and UK scene. Only time will tell just how long this current period of economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

#### *Interest Rates – Short Term*

- 4.15 Bank Rate, currently 0.5%, underpins investment returns (and short-term borrowing rates) and is not expected to start increasing until December 2016.

#### *Interest Rates - Longer-term*

- 4.16 Fixed interest borrowing rates are underpinned by UK gilt yields and the forecasts in this report expect PWLB rates to rise gradually over the next three years despite their recent falls. Forecasts are based around Capita Asset services view as at January 2016 which saw PWLB forecasts brought down to reflect their current abnormally low levels which have continued to remain at low levels throughout

2015. The forecasts therefore take a view as to how quickly or slowly this situation will unwind but remains very hard to predict. As there are significant potential risks from the Eurozone and from financial flows from emerging markets in particular, caution must be exercised in respect of all interest rate forecasts at the current time. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged, as market fundamentals will focus on the sheer volume of UK gilt issuance (and also US Treasury issuance) and the price of those new debt issues. Increasing investor confidence in eventual world economic recovery should also compound this effect as recovery will encourage investors to switch from bonds to equities. Negative (or positive) developments in the Eurozone sovereign debt crisis could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

- 4.17 In 2016 there is every prospect that we will see varying schools of thought on the robustness of the UK economy emerge which will directly impact on longer term movement in interest rates. The Treasury Management team will need to be both adaptable and quick in actioning appropriate treasury strategies at the appropriate time.
- 4.18 A detailed interest rate forecast is included in Appendix 2.

#### Borrowing Strategy 2016/17

- 4.19 The Council is currently maintaining an under-borrowed position. This means that capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure (the Council is internally borrowed) . This strategy is prudent as investment returns are low and counterparty risk is high. Long-term borrowing however cannot be avoided indefinitely neither can reliance on internal cash balances; and short term savings similarly need to be weighed against the potential for incurring extra costs by delaying unavoidable new external borrowing until later years, when PWLB long term rates are forecast to be higher.
- 4.20 In line with the Council's plans for capital investment in the Borough, there are a number of substantial capital spending projects that have been included in the financial and prudential indicators and the Council's borrowing limits for 2016/17. This indicates that the Council could take on significant external borrowing to fund this spending. As a result, the indicator for the maximum amount of funds invested over 364 days in paragraph 7.41 and limits in Appendix 3 for longer term investments, has again been set at £60m for 2016/17 and beyond. This will allow the Council the flexibility to forward borrow this funding if this proves financially valuable, in this event the funds will in all probability be invested for periods exceeding one year in line with the projected spending profiles of the various schemes. This may allow the Council to lengthen its investment portfolio and in doing so gain an enhanced return.
- 4.21 The Council will make use of temporary borrowing from the money markets/other local authorities throughout 2016/17 to supplement cashflow fluctuations.
- 4.22 If longer-term interest rates look set to rise, the Council will weigh up the cheapest long-term funding options.

## *Treasury Indicators - Treasury Management Limits on Activity*

- 4.23 The three debt related treasury activity limits aimed at managing risk and reducing the impact of any adverse movement in interest rates are given in paragraph 6.41. These provide upper limits on variable and fixed interest rate exposure, principal amounts invested over 364 days and net debt compared to gross debt. Limits are also given to the maturity structure of borrowing which controls the amount of debt maturing in differing periods so that refinancing does not overly expose the Council to interest rate risk.

## **5 Annual Investment Strategy (AIS) 2016/17**

### Investment Policy

- 5.1 The investment strategy is intended to provide Members with a clear message for consideration, with the counterparty framework for 2016/17 ensuring that there are sufficient investment options available to place funds with good quality counterparties/ instruments in the event that the credit market develops or deteriorates.
- 5.2 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

### Creditworthiness Policy

- 5.3 The Capita Asset Services modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swaps (CDS) spreads for which the end product is a series of colour coded bands, which indicate the relative creditworthiness of counterparties and therefore suggested duration for investments; a detailed explanation of the Council's approach for approval is given in paragraphs 7.11 to 7.19.
- 5.4 Investment instruments for use in 2016/17 are listed in Appendix 3 with minimum credit band under this methodology, (where no colour band is provided minimum criteria have been provided).
- 5.5 The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign rating of AA- from Fitch (or equivalent). The list of countries that qualify at the date of the report are given in Appendix 5.
- 5.6 No Country limit is provided for the UK or formal sector limits for banks and building societies.

### Investment Strategy 2016/17

- 5.7 The Council will avoid longer term investments (over 365 days) for its 'core' cash, while investment rates remain at historically low levels and will consequently keep investments short-term/liquid in line with cashflow requirements. If attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and providing they are within the risk parameters set by this Council, they will be given consideration. However, without taking any new

long-term external borrowing, investments in excess of 365 days are unlikely in 2016/17 as the Council will not have resources to commit funds for longer term durations.

- 5.8 The Council may externalise some of its borrowing in 2016/17 and take on additional long-term funding to fund forthcoming major capital projects. If this is the case the Council may have significant amounts of 'non-core' cash which it will be looking to invest over a longer time frame, as spending on these capital schemes will be phased and the funds will in all likelihood be borrowed ahead of need. This scenario would mean the Council will consider longer term investments at enhanced levels and this may involve considering alternative investment products.
- 5.9 The budgeted return of 0.60% for 2016/17 assumes an average investment duration of up to 100 days and is in line with the forecast LIBID rate for the period (assuming Bank Rate starts increasing from December 2016). This return will be revised upwards if the Bank Rate starts to increase earlier, or if the Council takes on external borrowing which in turn will lead to it placing significant investments for longer periods than 100 days.
- 5.10 For its cash flow generated balances, the Council will utilise Money Market Funds (MMF), instant access and notice accounts and some short-dated deposits (overnight to 100 days).

## **6 Recommendations**

The Council Meeting is asked to approve:

- The revised Minimum Revenue Provision Policy for 2015/16 and 2016/17;
- The Capital Expenditure Forecasts and Capital Financing Requirement projections;
- The Treasury Management Strategy 2016/17;
- The Treasury and Prudential Indicators and limits 2016/17-2018/19;
- The Annual Investment Strategy 2016/17.

# **2016/17 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY**

Report of the Corporate Director, Corporate and Support Services

## **FULL REPORT**

### **1 INTRODUCTION AND PURPOSE OF REPORT**

#### **CIPFA TREASURY MANAGEMENT CODE OF PRACTICE**

- 1.1 CIPFA defines treasury management as “the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 1.2 The Council is required to operate a balanced revenue budget, which broadly means revenue cash raised during the year will meet its revenue cash expenditure. The primary function of the Treasury Management Service is to ensure this cash flow is adequately planned, with core cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s risk appetite, providing adequate liquidity before considering investment return.
- 1.3 The second main function of the Treasury Management Service is to arrange the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially this is longer term cash flow planning to ensure the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion existing debt may be restructured to meet Council risk or cost objectives.
- 1.4 The Council has delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource and Governance Scrutiny Committee (CRMG). As such, the views of CRMG were sought and any opinions or suggestions made have been taken into account when formulating the Council's Treasury Management Strategies for 2016/17.
- 1.5 This comprehensive report sets out the Council’s Treasury Management Strategies for 2016/17 which are constructed in full compliance with the CIPFA Treasury Management Code and the Council's Treasury Management Policy Statement and Practices.
- 1.6 An Equalities Impact Assessment has been carried out on the Treasury Management Strategy; this is included at Appendix 7.

#### **STATUTORY REQUIREMENTS**

- 1.7 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

- 1.8 The Act requires the Council to set out specific treasury strategies for borrowing and investments along with its policy for setting aside minimum revenue provision to cover debt repayments associated with borrowing to fund capital investment.
- 1.9 The strategies and policy are also prepared in accordance with the Communities for Local Government (CLG) MRP Guidance and the CLG Investment Guidance.

#### REPORTING REQUIREMENTS

- 1.10 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by a delegated Committee before being recommended to the Council. This role is undertaken by the Corporate, Resource and Governance Scrutiny Committee.

*A Report Covering the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy (this report).*

- 1.11 This report is a forward looking report which sets the scene for the year and it covers:
- The Treasury Management Strategy (how the investments and borrowings are to be organised); and
  - An Investment Strategy (the parameters on how investments are to be managed).
  - A Minimum Revenue Provision Policy (how capital expenditure funded by prudential borrowing is charged to revenue over time);
  - The forward estimates of borrowing required to fund capital programme plans (including Prudential Indicators);

#### *A Mid-Year Treasury Management Report*

- 1.12 This report updates Members with the progress on the treasury and capital position, amending Prudential Indicators as necessary and whether the treasury strategy is meeting the Council's objectives or requires any policy revision due to economic or other factors.

#### *An Annual Treasury Report*

- 1.13 This report provides a comprehensive retrospective review for the financial year of all treasury policies, plans, activities and results.
- 1.14 To supplement these three central reports which are tabled at Council, the Executive and CRMG will be provided with treasury performance monitoring reports at quarter one and quarter three of the financial year (part of the Corporate Performance and Resources Reports). These will detail activities undertaken, variations (if any) from agreed policies/practices and will provide treasury performance monitoring information.
- 1.15 These reports are required to be adequately scrutinised, the role of which is undertaken by the CRMG scrutiny committee which has responsibility for

scrutinising certain Council functions and activities, including maintaining an overview of the Council's governance, risk management and financial arrangements

#### TREASURY MANAGEMENT STRATEGY FOR 2016/17

- 1.16 The strategy for 2016/17 covers two main areas:

##### *Capital*

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

##### *Treasury Management*

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

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

#### TRAINING

- 1.18 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Members received annual treasury management training on 8 December 2015 and further training will be arranged as required.
- 1.19 The training needs of treasury management officers are reviewed through the annual employee Performance, Development and Review process.

#### TREASURY MANAGEMENT CONSULTANTS

- 1.20 The Council uses Capita Asset Services (previously Sector Treasury Services), Treasury Solutions as its external treasury management advisors.
- 1.21 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external service providers.
- 1.22 The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

## **2 MRP POLICY 2015/16 and 2016/17**

- 2.1 The Council is required to settle an element of its non-HRA Capital Financing Requirement (CFR) each year by way of a revenue charge (the Minimum Revenue Provision, 'MRP'). Local Authorities may also provide additional 'Voluntary Revenue Provision' if they wish to do so.
- 2.2 CLG guidance recommends the preparation of an annual statement of policy on making MRP for submission to the Council Meeting for approval. The terms of the original statement may be revised during the year subject to the revised statement being approved by the Council Meeting at that time. The guidance presents four 'ready-made' options for calculating MRP but other options are not ruled out provided they are consistent with the statutory duty to make prudent provision.
- 2.3 On 4 August 2015, the Corporate, Resource Management and Governance Scrutiny Committee was asked to consider a proposal to amend the Council's MRP policy to enable the adoption of a revised methodology for calculating MRP in relation to General Fund debt that was previously supported through the local government finance system.
- 2.4 The Council currently uses 'the regulatory method' for calculating MRP on General Fund debt and this equates to setting aside 4% of the opening balance outstanding on a reducing balance basis. The recommended amendment as referred to in 2.3 involved adopting a new method for calculating MRP from the 'regulatory method' to the more prudent 'equal instalments' method.
- 2.5 The 'equal instalments' approach to calculating MRP is to simply provide for the debt outstanding over 50 years (2% per annum). On a whole life basis, this approach is arguably more prudent than the regulatory method as it results in this debt being fully extinguished within 50 years.
- 2.6 A further change is also presented for approval that will allow capital receipts to be applied in lieu of MRP (see paragraph 5.17 and 5.18). This will provide the ability to generate additional revenue resources should this flexibility be required to support the Council's medium term investment plans.
- 2.7 The Council's revised approach to calculating MRP is set out in Section 5 for approval. This statement of policy is presented for approval as being effective from 1 April 2015 and therefore replaces the existing policy statement applicable to 2015/16 that was approved by the Council Meeting on 26 February 2015. For the avoidance of doubt, the MRP Policy Statement as presented in this report will apply to both financial years 2015/16 and 2016/17.
- 2.8 The Council's MRP Policy Statement will continue to be reviewed on at least an annual basis.

## **3 CAPITAL PLANS AND PRUDENTIAL INDICATORS 2016/17-2018/19**

- 3.1 The Council's capital expenditure plans are the key driver to the long term borrowing aspect of treasury management activity. The capital expenditure plans and the affordability of these are reflected in a number of prudential indicators. These are designed to assist in understanding the link between capital expenditure



plans and the underlying need to borrow for treasury management purposes and provide an indication of the impact of the capital investment plans on the Council's overall finances.

#### Relevant Prudential Indicators for Approval.

##### *Capital Expenditure Plans Prudential Indicator*

- 3.2 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the medium term financial planning cycle.
- 3.3 Future Government grant funding allocations beyond 2016/17 are relatively unknown. The 2017/18 and 2018/19 programmes reflect this and only contain schemes where funding is confirmed and approved prudential borrowing schemes. It should be noted that there is £87.261m committed to approved schemes in 2019/20 and beyond and the HRA Business Plan sets out capital expenditure of £32.267m from 2017 through to 2021. This will be included in the programme once plans and phasing are firmly determined.

<b>Capital Expenditure by Portfolio</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
Safe and Resilient Communities	9.420	2.488	0.000
Supporting Adults	2.006	0.000	0.000
Supporting Children	0.014	0.000	0.000
Supporting Places	75.188	54.730	37.797
Support and Governance	21.802	3.250	0.950
Thriving Economy	102.748	34.055	17.044
<b>Total Capital Expenditure</b>	<b>211.178</b>	<b>94.523</b>	<b>55.791</b>
Non HRA	178.419	81.876	38.747
HRA	32.759	12.647	17.044

- 3.4 The table below summarises the above capital expenditure plans and how these plans are intended to be financed by capital or revenue resources. Any shortfall of specific resources results in a borrowing requirement for the year.

Capital Expenditure	2016/17 Non HRA £m	2016/17 HRA £m	2017/18 Non HRA £m	2017/18 HRA £m	2018/19 Non HRA £m	2018/19 HRA £m
Total Capital Expenditure	178.419	32.759	81.876	12.647	38.747	17.044
Financed By:						
Capital Receipts	64.934	1.475	42.865	1.875	24.346	0.150
Capital Grants	5.292	0.234	0.000	1.760	0.000	0.000
Capital Contributions	3.787	0.000	2.000	0.000	0.000	0.000
Revenue Contribution	1.170	20.127	0.075	8.458	0.000	13.134
Borrowing Requirement for the Year	103.236	10.923	36.936	0.554	14.401	3.760

*The Council's Borrowing Need - The Capital Financing Requirement – CFR Prudential Indicator*

- 3.5 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR measures a vital component of the Council's Capital Strategy; the amount of historic (cumulative) capital spending that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need for a capital purpose. Any capital expenditure above which has not immediately been paid for through receipts, grants and contributions will increase the CFR.
- 3.6 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the CFR in line with each asset's life.
- 3.7 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for them. The Council currently has £13.700m of such schemes within the CFR; this has increased significantly due to the addition of the finance lease taken on for Stockport Exchange multi-storey car park.

<b>Capital Financing Requirement (CFR)</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
Non HRA CFR b/f	349.784	444.191	469.774
Borrowing requirement for the year (above)	103.236	36.936	14.401
Less MRP and other financing movements	(8.829)	(11.353)	(15.238)
Non HRA CFR c/f	444.191	469.774	468.937
HRA CFR b/f	132.046	142.055	141.810
Borrowing requirement for the year (above)	10.923	0.554	3.760
Less depreciation and MRP provision	(0.914)	(0.799)	(0.845)
HRA CFR c/f	142.055	141.810	144.725
<b>TOTAL CFR c/f</b>	<b>586.246</b>	<b>611.584</b>	<b>613.662</b>

#### **4 AFFORDABILITY PRUDENTIAL INDICATORS**

- 4.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Relevant Prudential Indicators for Approval.

*Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream*

- 4.2 This indicator identifies the proportion that financing costs (borrowing and other long term obligation costs net of investment income) are of the Council's net revenue streams.
- 4.3 The estimates of financing costs include current commitments and the proposals included in the medium term financial plans report.

	2016/17 %	2017/18 %	2018/19 %
Non HRA	7.9	10.0	10.8
HRA	11.0	11.6	11.4

*Estimates of the Incremental Impact of Capital Investment Decisions on Council Tax (Band D Equivalent)*

- 4.4 This indicator illustrates the revenue financing costs associated with proposed changes to the three year capital programme recommended in the Executive Revenue Budget and Capital Programme Report elsewhere on this Agenda, compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2016/17 £	2017/18 £	2018/19 £
Council Tax Band D	69.81	25.52	10.28

*Estimates of the Incremental Impact of Capital Investment Decisions on Housing Rent levels*

- 4.5 Similar to the Council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the Executive Revenue Budget Capital Programme Report elsewhere on this Agenda, compared to the Council's existing commitments and current plans, expressed as a discrete illustrative impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

	2016/17 £	2017/18 £	2018/19 £
Weekly Housing Rent Levels	1.14	0.06	0.41

## 5 **MINIMUM REVENUE PROVISION POLICY (MRP) STATEMENT 2015/16 AND 2016/17**

### General Principles and Practices

- 5.1 Local authorities are required to set aside 'prudent' provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure.

### *Link to Asset Life/Economic Benefit*

- 5.2 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or CLG Guidance.

- 5.3 Asset Life and the period over which to charge MRP will be determined under delegated powers. Where possible and permitted by CLG Guidance, those periods will be consistent with the periods set out in the Council's depreciation policy.
- 5.4 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the CLG guidance (paragraph 24), these periods will generally be adopted by the Council.
- 5.5 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.
- 5.6 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

#### Methods for Calculating MRP

- 5.7 The following alternative methods for calculating MRP may be used under delegated powers where this is deemed appropriate. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. Alternatives include but are not limited to:

##### *The Annuity Method*

- 5.8 This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing or average PWLB rates.

##### *Equal Instalments of Principal*

- 5.9 MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

##### *Previously Supported General Fund Borrowing*

- 5.10 General Fund Borrowing that was previously supported through the RSG system will be provided for in equal annual instalments over a 50 year period commencing 1 April 2015. As at 1 April 2015, the value of this borrowing equalled £177,400,492 and results in an equal annual minimum revenue provision of £3,548,010; the final instalment of which will be provided for by no later than 31 March 2065. In the event of:
- transfers of Capital Financing Requirement between the General Fund element and Housing element;
  - additional voluntary revenue provision being made.

...the annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2065.

#### *Bespoke Repayment Profiles:*

- 5.11 MRP is, for example, based on a pre-determined profile linked to a credit arrangement such as a Finance Lease.

#### Voluntary Revenue Provision

- 5.12 The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

#### Local Exceptions to the Guidance

- 5.13 The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the CLG guidance are not appropriate to local circumstances. Examples include:

#### *Assets under Construction*

- 5.14 No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

#### *Loans to third parties*

- 5.15 The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that this provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties (including those made to group companies or counterparties participating in the Local Authority Mortgage Scheme (LAMS)) as the debt liability is covered by the existence of a debtor; typically long term depending on the life of the loan.

#### *Borrowing in Lieu of Capital Receipts*

- 5.16 The Council has concluded that provision is not necessary for capital expenditure incurred in lieu of capital receipts. Any such schemes will be classified by the Estates Strategy Group (ESG) as 'Borrowing in Lieu of Capital Receipts'. The Estates Strategy Group will also determine which capital receipts will be ring-fenced to the scheme and as the receipts are achieved they will be applied to repay the debt.

#### The Application of Capital Receipts in Lieu of MRP

- 5.17 Where the Council has received uncommitted and unapplied Capital Receipts, it retains the option to set aside those Capital Receipts as part of its arrangements for

making 'prudent' provision for debt repayment rather than using them for capital financing purposes.

- 5.18 As Capital Receipts may form part of the Councils arrangements for making 'prudent' provision, setting aside Capital Receipts in this manner can be carried out in lieu of MRP whereby the MRP charge will be reduced by an amount equal to that set aside from Capital Receipts.

#### HRA Capital Financing Requirement (CFR)

- 5.19 MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146), as if they had not been revoked. This approach is consistent with paragraph 7 of the CLG Guidance on MRP.
- 5.20 The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make 'Voluntary Revenue Provision' provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

## **6 TREASURY MANAGEMENT STRATEGY FOR 2016/17 (TMSS)**

- 6.1 The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The Treasury Management Service ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet its service activity. This will involve both the organisation of the cash flow, and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

#### CURRENT PORTFOLIO POSITION

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

Gross Borrowing and the CFR	31.03.16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Gross Borrowing	348.334	452.750	478.088	480.166
Other Long-term Liabilities	13.700	13.700	13.700	13.700
Total Gross External Debt	362.034	465.623	490.821	491.949
TOTAL CFR	481.830	586.246	611.584	613.662
Under Borrowing	119.796	119.796	119.796	119.796

- 6.3 It should be noted that the gross borrowing position in the table above assumes that future years borrowing requirements will be fully funded and as such the under borrowing position remains unchanged, with the gross borrowing position rising in line with the Capital Financing Requirement.
- 6.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits.

### *Gross Debt and the Capital Financing Requirement*

- 6.5 In order to ensure that over the medium term debt will only be for a capital purpose, the Council needs to ensure that its debt does not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This is a key indicator of prudence. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
- 6.6 Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy (AIS).
- 6.7 For the purposes of the Prudential Code, debt or gross debt refers to the sum of borrowing and other long-term liabilities, as illustrated in the table above.
- 6.8 The Corporate Director, Corporate and Support Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in the medium term financial plans report.

#### TREASURY INDICATORS WITHIN THE PRUDENTIAL CODE - LIMITS TO BORROWING ACTIVITY

- 6.9 The Council is asked to approve the following limits

#### *The Operational Boundary for External Debt*

- 6.10 This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. The Operational Boundary has been set a level higher than the CFR to allow the Council some flexibility to forward fund its borrowing requirement should market rates mean it is economically advantageous to do so.

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Debt	636.300	661.300	661.300
Other Long-term Liabilities	13.700	13.700	13.700
Total	650.000	675.000	675.000

#### *The Authorised Limit for External Debt*

- 6.11 A further key prudential indicator represents a control on the maximum level of debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Debt	661.300	686.300	686.300
Other Long-term Liabilities	13.700	13.700	13.700
Total	675.000	700.000	700.000

- 6.12 The Council is also limited to a maximum HRA CFR through the HRA self-financing regime; this limit is £146.947m. The following table sets out the HRA limit on indebtedness and compares it to the estimated HRA CFR.

HRA Limit on Indebtedness	2016/17 £m	2017/18 £m	2018/19 £m
Limit on HRA CFR	146.947	146.947	146.947
Estimate of HRA CFR	142.055	141.810	144.725
Headroom	4.892	5.137	2.222

### PROSPECTS FOR INTEREST RATES

- 6.13 The Council has appointed Capita Asset Services as external treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates.
- 6.14 The following table gives a summary of the Capita Asset Services central view:

		Bank Rate	PWLB Borrowing Rates (including Certainty Rate adjustment)			
			5-Year	10-Year	25-Year	50-Year
March	2016	0.50%	2.00%	2.60%	3.40%	3.20%
June	2016	0.50%	2.10%	2.70%	3.40%	3.20%
Sept	2016	0.50%	2.20%	2.80%	3.50%	3.30%
Dec	2016	0.75%	2.30%	2.90%	3.60%	3.40%
March	2017	0.75%	2.40%	3.00%	3.70%	3.50%
June	2017	1.00%	2.50%	3.10%	3.70%	3.60%
Sept	2017	1.00%	2.60%	3.20%	3.80%	3.70%
Dec	2017	1.25%	2.70%	3.30%	3.90%	3.80%
March	2018	1.25%	2.80%	3.40%	4.00%	3.90%
June	2018	1.50%	2.90%	3.50%	4.00%	4.00%
Sept	2018	1.50%	3.00%	3.60%	4.10%	4.10%
Dec	2018	1.75%	3.10%	3.60%	4.10%	4.10%

- 6.15 Appendix 2 provides a more detailed view and also draws together a comparison with Capita Economics forecasts for the next three financial years, for the short term (Bank Rate) and longer fixed interest rates (PWLB).
- 6.16 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at around 2%.
- 6.17 Quarter one of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter two to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter three. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers



has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015.

- 6.18 Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.
- 6.19 The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will now delay a significant tick up in inflation from around zero.
- 6.20 Inflation is now expected to get back to around 1% by the end in the second half of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.
- 6.21 Nevertheless, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pickup in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing the Base Rate.
- 6.22 The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in the Base Rate would occur being pushed back to quarter four of 2016. There is downside risk to this forecast i.e. it could be pushed further back.
- 6.23 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter two of 2015, but then pulled back to 2.1% in quarter three. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Federal Reserve to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.
- 6.24 In the Eurozone, the European Central Bank (ECB) issued in January 2015 a huge €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter one 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter two and +0.3% in quarter three. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and

emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

- 6.25 During July, Greece finally succumbed to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

### *Conclusions*

- 6.26 Investment returns are likely to remain relatively low during 2016/17 and beyond.
- 6.27 Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.
- 6.28 There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

### BORROWING STRATEGY 2016/17

- 6.29 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as internal borrowing and is a prudent strategy as investment returns are low and counterparty risk is relatively high.
- 6.30 Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Corporate Director for Corporate and Support Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

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

- 6.31 Any decisions will be reported at the next available opportunity throughout the Council's reporting cycle.
- 6.32 The next financial year is expected again to be one with a historically low Base Rate. This provides a continuation of the current window of opportunity for the Council to monitor its strategy of undertaking new long-term external borrowing. Investment rates are again expected to be below long term borrowing rates during 2016/17 and so value for money considerations would indicate that value could still be best obtained by continuing to avoid new external long-term borrowing, by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings but is just a short term solution and not sustainable.
- 6.33 Members will recall that the Council has reiterated in a number of treasury management reports during the current financial year that long-term borrowing cannot be avoided indefinitely and neither can reliance on internal cash balances. Short term savings similarly need to be weighed against the potential for incurring extra costs by delaying unavoidable new external borrowing until later years, when PWLB long term rates are forecast to be higher.
- 6.34 The interest rate forecast in Appendix 2 suggests long term (PWLB) rates will rise at a gradual, if not slow pace, throughout 2016/17. In line with the Council's plans for capital investment in the Borough, there are a number of substantial capital spending projects that have been included in the prudential and treasury indicators and the Council's borrowing limits for 2016/17. The Council will almost certainly need to take on significant external borrowing to fund this spending; the key is to deciding when is the most opportune time and can the Council prudently continue to delay borrowing without taking on too much interest rate/financing risk? As demonstrated in previous Treasury Management reports this financial year and the quarter three review, included in the Corporate Performance and Resources Report elsewhere on the agenda, we have seen long term PWLB rates remain low throughout 2015 and yet the Council has continued to delay long-term borrowing due to significant cost of carry implications and its ability to maintain this position to its advantage whilst rates stay low or continue to fall.
- 6.35 Indicators have therefore been set to accommodate this spending and also with a view to allowing the Council to externalise some of its internally borrowing (highlighted in the table in 6.2) should it see advantage in doing so. As a result, the indicator for the maximum amount of funds invested over 364 days in paragraph 7.41 and limits in Appendix 3 for longer term investments, have been maintained at £60m for 2016/17 and beyond. This will allow the Council the freedom to forward borrow this funding if advantageous in which case it is likely the funds will be invested for periods exceeding one year in line with the projected spending profiles of the various schemes. This may allow the Council to lengthen its investment portfolio and in doing so gain an enhanced return.

- 6.36 To summarise; in view of the prospects for interest rates the Councils borrowing strategy will give consideration to new borrowing in the following order of priority:
- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates, however this cannot be maintained indefinitely as indicated above.
  - The Council will make use of temporary borrowing from the money markets/other local authorities throughout 2016/17 to supplement cashflow fluctuations.
  - Medium dated borrowing from non PWLB sources, i.e. up to five year loans from other local authorities if available and if it can be demonstrated that these provide a reasonable margin below the equivalent PWLB Certainty Rate. Longer term loans would also be considered as an alternative (up to ten years or more), but it is unlikely other council' would have the funds available over a longer timeframe.
  - If longer-term interest rates look set to rise, the Council will weigh up the cheapest long-term funding options. This will include PWLB borrowing at the Certainty Rate (20 basis points below the standard PWLB borrowing rates). Although rates in the shorter-periods (below ten years) are anticipated to be the cheapest, all new longer-term borrowing will also be considered in relation to the current debt maturity profile of the Council. If long term fixed rate market loans are available at rates significantly below the PWLB Certainty rate, for the equivalent maturity periods and maintain an appropriate balance between PWLB and market debt, then these may be a favourable addition to the debt portfolio.

#### *Bond Market and Bond Agency*

- 6.37 The main argument for the Council to consider the bond market is to try and better the rates offered by the PWLB and not to rely solely on this monopoly tender with rates that can change at any time. The Local Government Association successfully lobbied for a bond agency to be created to offer this alternative specifically for local authorities and the public sector.
- 6.38 The creation of the Municipal Bond Agency is still very much in its infancy and has managed to sign up 60+ local authorities. This will remain an option to the Council and will gain on-going consideration as and when the agency fully establishes itself in the bond market and can offer a competitive alternative to PWLB.
- 6.39 In addition to the Bond Agency, one local authority has lead the way and successfully issued a bond via their treasury management brokers resulting in potential savings against PWLB rates.
- 6.40 However there are barriers to the Council considering a bond issue include the fees, which can be costly, and the work required in terms of getting a credit rating (for potential investors). The Council would consider making use of this new source of borrowing if it was considered appropriate.

#### TREASURY INDICATORS WITHIN THE TREASURY MANAGEMENT CODE

- 6.41 There are three debt related treasury activity limits. Their purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing

risk and reducing the impact of any adverse movement in interest rates. However if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are detailed in Appendix 1 and are:

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

- 6.42 The indicators for upper limits set the upper value within which the Council will limit its exposure to both fixed and variable interest rate movements. These calculations are for net debt (fixed or variable rate debt less fixed or variable rate investments) and the limits have been set as a percentage of total net debt. The upper limit for net debt at fixed interest rates has been set at 100% as this could conceivably be the case during certain times of the year. This has been expressed as a percentage rather than a financial value.
- 6.43 The Council favours certainty in its debt portfolios and consequently all its long-term PWLB borrowing is at fixed rates.
- 6.44 The upper limit for variable rate interest exposure has been set at 40%, being the highest proportion of total net debt that can be subject to variable interest rates. As detailed in paragraph 6.34 above, the Council will be relying to some extent on short-term variable rate borrowing in the 2016/17 financial year; consequently this limit ensures such borrowing can be comfortably accommodated.
- 6.45 The Council currently has £77.5m of Lenders Option Borrowers Option (LOBO) borrowing. According to the Prudential Code, the majority of the LOBO debt should be treated as variable for the purpose of the interest rate exposure indicators. However the Council's LOBO debt is long-term debt where the Council cannot exercise control over the rate, i.e. it is currently at a fixed rate (and maturity date) but subject to options (depending on the terms under each individual loan) being exercised by the lender (in which case the Council has the option to prematurely repay).
- 6.46 CIPFA treats a LOBO's maturity as the next possible call or 'option date'. However in the current interest rate environment it is highly unlikely that any option would be exercised by the lender. As to whether a loan is variable or fixed, based on the CIPFA view, if the loan has a call date of <12 months then it is deemed variable and if the call date is >12 months, it is fixed.
- 6.47 For the purposes of meaningful indicators in this area, this debt can be assumed to be fixed or variable.
- 6.48 Of the £77.5m LOBOs, £32.5m have options in the 2016/17 financial year, £32.5m in 2017/18 and £52.5m in 2018/19. These options could effectively be exercised by the lender and rejected by the Council favouring to repay the debt and replace it in-year with fixed term PWLB debt (however very unlikely); this eventuality would

support the approach of providing an upper limit of nearer to 100% for fixed interest rate exposure.

6.49 For the purposes of the Code, the indicator for variable rate debt has also been set at 40% to accommodate LOBO borrowing. In practice however, the level of variable rate debt is likely to be much less than 40%.

6.50 The Council is asked to approve the following treasury indicators and limits:

Interest rate Exposures	Upper 2016/17 %	Upper 2017/18 %	Upper 2018/19 %
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2016/17		Lower	Upper
Under 12 months		0%	40%
12 months to 2 years		0%	40%
2 years to 5 years		0%	45%
5 years to 10 years		0%	45%
10 years and above		50%	100%

6.51 The Maturity Structure indicator assumes LOBOs could mature on their next call date (rather than their original maturity date) and so sufficient room has been built in to allow LOBO loans to mature in each period. A level of movement has also been allowed in the upper limits in the event that the Council takes long term borrowing during 2016/17.

#### POLICY ON BORROWING IN ADVANCE OF NEED

6.52 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

6.53 In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- Ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the

consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

6.54 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period, unless circumstances exist which indicate a clear case/financial advantage to the Council;
- Would not look to borrow more than 36 months in advance of need.

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

#### DEBT RESCHEDULING

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

6.57 The reasons for any rescheduling to take place will include:

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

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

6.59 All rescheduling will be reported to the Executive at the meeting following its action.

### **7 ANNUAL INVESTMENT STRATEGY 2016/17 (AIS)**

#### INVESTMENT POLICY

7.1 The Council investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are security of capital first, the liquidity of its investments second and then return.

7.2 The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

7.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

- 7.4 In accordance with guidance from the CLG and CIPFA and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit criteria of counterparties to generate a highly rated lending list which also enables diversification and thus avoidance of concentration of risk. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capital Asset Services ratings service counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies inform of modifications.
- 7.5 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.
- 7.6 Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of creditworthiness.
- 7.7 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 7.8 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.
- 7.9 The investment strategy is intended to provide Members with a clear message for consideration, with the Counterparty framework for 2016/17 ensuring sufficient investment options available to place funds with good quality counterparties/ instruments in the event that the credit market deteriorate. The critical objective in 2016/17 is to provide an investment strategy to Members that also provides the treasury function with sufficient options and names to be able to operate in normal circumstances. This will allow some flexibility to be available should the investment markets become more difficult. This approach will allow officers flexibility, i.e. to restrict the pool of available counterparties (approved by Members) if markets are more risky; officers may in this event restrict all investments to Money Market Funds, the use of Treasury Bills or short Gilts may similarly be worthwhile. The Treasury Manager will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any amendments will be reported, with supporting reasons in the next available opportunity. The Council will



continue to monitor markets on a constant basis throughout 2016/17 and will keep Members informed if situations should warrant any change in view in the future.

- 7.10 Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices (Schedules); however these are included in the Appendix for information.

#### CREDITWORTHINESS POLICY 2016/17

- 7.11 It is the Council's policy to place appropriate parameters in terms of credit quality, to organisations with whom it invests.
- 7.12 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- Credit watches and credit outlooks from credit rating agencies;
  - CDS spreads to give early warning of likely changes in credit ratings;
  - Sovereign ratings to select counterparties from only the most creditworthy countries.
- 7.13 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

Yellow	5 years **
Dark Pink	5 years for enhanced money market funds (EMMF) credit score 1.25
Light Pink	5 years for enhanced money market funds (EMMF) credit score 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	not to be used

**\*\* Please note that the yellow category is for UK Government debt or its equivalent, constant NAV1 money market funds and collateralised deposits where the collateral is UK Government debt.**

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to +5yrs	Up to +5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mth	Up to 100 days	

<sup>1</sup> A constant net asset value (CNAV) MMF is a fund that seeks to maintain a stable £1 per share when investors redeem or purchase shares. The net value of the assets held by an MMF can, however, fluctuate, and the market value of a share may therefore not always be exactly £1. To avoid a fluctuating share value, a CNAV MMF uses amortised costs to value its assets.

- 7.14 Where a colour coded band is not provided for a particular investment instrument, the minimum criteria to be applied are detailed in Appendix 3.
- 7.15 This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 7.16 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 7.17 All credit ratings will be monitored on an on-going basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
  - In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 7.18 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.
- 7.19 Ratings Criteria and comparisons are explained for the benefit of Members briefly in Appendix 4.

#### COUNTRY LIMITS

- 7.20 The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). Any investments placed with a counterparty on the strength of an explicit guarantee from the Government of that counterparty will require a minimum sovereign rating of AA+. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.
- 7.21 The Council has not imposed a Country limit on the UK as its Country of domicile.
- 7.22 The Council has not implemented sector limits for banks and building societies but will, however, avoid a concentration of investments in too few counterparties or countries and believes maintaining a suitable spreading approach in itself is likely to be sufficient given the safeguards already built into its creditworthiness service. The Council does not think it necessary to stipulate a spreading requirement, i.e. of

no more than say 20% of an investment portfolio with one counterparty, country etc., as the investment portfolio varies considerably in size during the year and any such policy is likely to be unworkable given the parameters already in place.

#### POLICY ON USE OF FINANCIAL DERIVATIVES

- 7.23 The 2011 CIPFA Code requires local authorities to clearly detail their policy on the use of derivatives in the annual strategy.
- 7.24 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).
- 7.25 The Council will only use financial derivatives (such as swaps, forwards, futures and options) either on a standalone, or embedded basis, where it can be clearly demonstrated that as part of the prudent management of the Council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the Council 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. This will be determined in liaison with the Council's external advisors
- 7.26 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 if applicable.
- 7.27 At all times the Council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management.

#### INVESTMENT STRATEGY

- 7.28 The Council's in-house managed funds will be made with reference to core balance and cash-flow requirements and the outlook for interest rates.
- 7.29 The Council also has investments that span the financial year, but no investments committed in the financial year, i.e. forward investments at this point in time.
- 7.30 With regard to investment return expectations the Bank Rate has been unchanged at 0.50% since March 2009 and is forecast to remain flat at 0.50% before commencing to rise from quarter four of 2016.
- 7.31 Bank Rate forecasts for financial year ends (March) are as follows:
- 2016/2017 0.75%
  - 2017/2018 1.25%
  - 2018/2019 1.75%
- 7.32 Forecast investment levels, based on expectations for Bank rate, are provided in the table below:

		Money Market Investment Rates (LIBID)		
		3-Month	6-Month	1-Year
<b>March</b>	<b>2016</b>	0.50%	0.70%	1.00%
<b>June</b>	<b>2016</b>	0.50%	0.70%	1.00%
<b>Sept</b>	<b>2016</b>	0.60%	0.80%	1.10%
<b>Dec</b>	<b>2016</b>	0.80%	0.90%	1.20%
<b>March</b>	<b>2017</b>	0.90%	1.00%	1.30%
<b>June</b>	<b>2017</b>	1.00%	1.20%	1.50%
<b>Sept</b>	<b>2017</b>	1.10%	1.30%	1.60%
<b>Dec</b>	<b>2017</b>	1.30%	1.50%	1.80%
<b>March</b>	<b>2018</b>	1.40%	1.60%	1.90%
<b>June</b>	<b>2018</b>	1.50%	1.70%	2.00%
<b>Sept</b>	<b>2018</b>	1.60%	1.80%	2.10%
<b>Dec</b>	<b>2018</b>	1.80%	2.00%	2.30%

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

2016/17	0.60%
2017/18	1.25%
2018/19	1.75%
2019/20	2.25%
2020/21	2.50%
2021/22	2.75%
2022/23	2.75%
2023/24	3.00%
Later years	3.00%

- 7.34 The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in the Base Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.
- 7.35 The Council will avoid locking into longer term investments (over 365 days) for its 'core' cash, while investment rates are down at historically low levels and will look to keep investments short-term/liquid in line with cashflow requirements. If attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and providing they are within the risk parameters set by this Council, they will be given consideration.
- 7.36 As recognised under the Borrowing Strategy (paragraphs 6.29 to 6.40) the Council could externalise some of its borrowing in 2016/17 and take on additional long-term funding to fund major capital regeneration projects. If this is the case the Council may have significant amounts of 'non-core' cash which it will be looking to invest

over a longer time frame, as spending on these capital schemes will be phased and the funds will in all likelihood be borrowed ahead of need. This scenario would mean the Council would consider longer term investments at enhanced levels.

- 7.37 The budgeted return of 0.60% for 2016/17 assumes an average investment duration of up to 100 days and is in line with the forecast LIBID rate for the period (assuming Bank Rate starts increasing from quarter four 2016). This return will be revised upwards if the Bank Rate starts to increase earlier, or if the Council places significant investments for longer periods than 100 days.
- 7.38 For its cash flow generated balances, the Council will utilise Money Market Funds (MMF), instant access and notice accounts and some short-dated deposits (overnight to 100 days). The primary function of a MMF is to cater for cash of less than 30 days that needs to be managed for maximum safety, liquidity and yield. MMF's are AAA rated and therefore provide robust safety and invest in a diversified portfolio of short term, high quality debt instruments. They provide the benefit of pooled investments. The assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns. The best funds from a security point of view have a triple-A status.
- 7.39 With central bank rates at record lows and the credit quality of European financial institutions still in question, the Council will also seek alternative return enhancing investment products that are most importantly safe, but also credible.

*Investment treasury indicator and limit*

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

Maximum principal sums invested >364 days	2016/17 £m	2017/18 £m	2018/19 £m
Long-term Investments	£60m	£60m	£60m

- 7.42 As discussed earlier in the report, this long-term investment limit has been maintained at £60m for 2016/17. Since the Council anticipates it may take significant amounts of long-term borrowing to fund major capital schemes during 2016/17, this indicator will allow the Council the capacity to invest the funds over a longer time frame, where spend on these schemes may be phased or where it may be advantageous to borrow ahead of need; particularly where interest rates are lower but forecast to rise. This will also mean the Council's investment portfolio will be lengthened and this in turn will enhance return in line with the yield curve.

## 8 **END OF YEAR INVESTMENT REPORT**

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

## 9 **TREASURY MANAGEMENT SCHEME OF DELEGATION**

The Council's constitution reflects the following roles and responsibilities:

#### The Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of the annual strategy;
- approval of outturn activity.

#### The Executive

- approval of/amendments to the Organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

#### Corporate, Resource Management & Governance (CRMG) Scrutiny Committee

- reviewing the treasury management strategy, policy and procedures and making recommendations to the responsible body.

#### Treasury Management Role of the Section 151 Officer (The Corporate Director, Corporate and Support Services)

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

## 10 **RECOMMENDATIONS**

The Council Meeting is asked to approve:

- The revised Minimum Revenue Provision Policy for 2015/16 and 2016/17;
- The Capital Expenditure forecasts and Capital Financing Requirement projections;
- The Treasury Management Strategy 2016/17;
- The Treasury and Prudential Indicators and limits 2016/17-2018/19;
- The Annual Investment Strategy 2016/17.

## BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact John Parkinson on Tel: 0161 218 1757 or by email on [john.parkinson@stockport.gov.uk](mailto:john.parkinson@stockport.gov.uk)

**Prudential and Treasury Indicators 2016/17 - 2018/19****Treasury Indicators**

	<b>2016/17 Budget £m</b>	<b>2017/18 Budget £m</b>	<b>2018/19 Budget £m</b>
Authorised limit for external debt	675.000	700.000	700.000
Operational boundary for external debt	650.000	675.000	675.000
Gross external debt	465.623	490.821	491.949

**Maturity Structure of fixed rate borrowing upper and lower limits**

Period	<b>2016/17 Lower</b>	<b>2016/17 Upper</b>
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	45%
5 years to 10 years	0%	45%
10 years and above	50%	100%

**Interest rate limits**

	<b>2016/17 Budget %</b>	<b>2017/18 Budget %</b>	<b>2018/19 Budget %</b>
Upper limit of fixed interest rates based on net debt	100%	100%	100%
Upper limit of variable interest rates based on net debt	40%	40%	40%

**Principal Sums**

	<b>2016/17 Budget £M</b>	<b>2017/18 Budget £M</b>	<b>2018/19 Budget £M</b>
Upper limit for principal sums invested over 364 days	60	60	60

**Capital Indicators**

	<b>Budget 2016/17 £000</b>	<b>Budget 2017/18 £000</b>	<b>Budget 2018/19 £000</b>
Capital expenditure	211,178	94,523	55,791
Capital Financing Requirement (CFR)	586,246	611,584	613,662
Annual change in CFR	104,416	25,337	2,078
In-year borrowing requirement (excluding MRP)	114,159	37,490	18,161
Ratio of financing costs to net revenue stream (non HRA)	7.9%	10.0%	10.8%
Ratio of financing costs to net revenue stream (HRA)	11.0%	11.6%	11.4%
<i>Incremental impact of capital investment decisions:</i>			
Increase in council tax (band change) per annum	£69.81	£25.52	£10.28
Increase in average housing rent per week	£1.14	£0.06	£0.41



## APPENDIX 2

### INTEREST RATE FORECASTS 2016-2019

The data below shows a variety of forecasts published Capita Asset Services and Capital Economics (an independent forecasting consultancy). Forecast PWLB rates shown below have taken into account the 20 basis point Certainty Rate reduction effective as of 1 November 2012.

Capita Asset Services Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	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%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Bank Rate													
Capita Asset Services	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%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

**ANNUAL INVESTMENT STRATEGY**

**CREDIT AND COUNTERPARTY RISK MANAGEMENT  
SPECIFIED & NON-SPECIFIED INVESTMENTS 2015/16**

Specified Investments:

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. Definitions of equivalent credit ratings are given in Appendix 4.

Non-Specified Investments:

These are any investments which do not meet the Specified investment criteria. A maximum of £60m will be held in aggregate in non-specified investments, for a maximum duration of 5 years.

The use for each investment class is 'in house' only.

A variety of investment instruments will be used, subject to the credit quality of the institution and depending on the type of investment made it will fall into one of the Specified or Non-Specified categories.

**The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of higher creditworthiness and/or restricted time limits.**

**Colour Band Credit Criteria**

The Council will use counterparties within the following durational bands:

- Yellow            5 years \*
- Dark Pink       5 years for enhanced money market funds (EMMF) credit score of 1.25
- Light Pink       5 years for enhanced money market funds (EMMF) credit score of 1.50
- Purple            2 years
- Blue              1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange           1 year
- Red               6 months
- Green            100 days
- No Colour        not to be used

*\* This category is for AAA rated Government debt only or its equivalent, constant NAV money market funds and collateralised deposits where the collateral is UK Gov Debt.*

*The Green Limit was formerly for 3 months but the Financial Conduct Authority set (July 2013) as requirement for qualifying deposits for bank liquidity buffers of a minimum of 95*

days so the green band has been slightly extended to accommodate this regulatory change.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are as follows:

Please note all investment classes listed in the table meet the Specified Investment criteria; the only difference making an investment category Non-Specified are for durations exceeding 1 year (i.e. credit criteria is not reduced for non-specified investments, in fact the opposite is true as counterparties identified under the orange band or above for investment durations of 1 year or more are of higher credit quality, implied by the recommended longer duration colour.

SPECIFIED & NON-SPECIFIED INVESTMENTS				
SPECIFIED (INVESTMENTS UNDER 1 YEAR)				
NON-SPECIFIED (INVESTMENTS EXCEEDING 1 YEAR)				
	Minimum Credit Criteria/Colour Band	Max % of total investments/or £ limit per investment type	Maximum Maturity Period	
Debt Management Agency Deposit Facility	AAA	100%	6 months	
Term Deposits: Local Authorities	NA	100%	Up to 5 years	
Term Deposits: Banks & Building Societies	Yellow	£50m	Up to 5 years	
	Purple	£60m	Up to 2 years	
	Blue	100%	Up to 1 year	
	Orange	100%	Up to 1 year	
	Red	100%	Up to 6 months	
	Green	100%	Up to 100 days	
	No Colour	NOT TO BE USED		
Term Deposits: wholly owned subsidiary bank or building society explicit guarantee from parent or Government <sup>1</sup>	As above (criteria for Term Deposits with Banks & Building Societies)/or explicit Gov guarantee (Sovereign Rating AA+)			
Term Deposits with Nationalised Banks & Building Societies operating with Government guarantees				
UK Nationalised Banks/Part Nationalised Banks (UK Sovereign Rating) <sup>2</sup>	Blue	£20M	Up to 1 year	
Government guarantee (explicit) on ALL deposits by high credit rated (sovereign rating) countries <sup>3</sup>	Sovereign Rating AA+/Sovereign Rating of UK			
Other Instruments				
Collateralised Deposit <sup>4</sup>	UK Sovereign Rating	£50m	3 years	
Certificates of deposit (or Corporate Bonds) issued by banks and building societies (and banks and building societies covered by Government (explicit) guarantee)	Sovereign Rating AA+	Yellow	£50m	Up to 5 years
		Purple	£60m	Up to 2 years
		Blue	100%	Up to 1 year
		Orange	100%	Up to 1 year
		Red	100%	Up to 6 months
		Green	100%	Up to 100 days
		No Colour	NA	NOT FOR USE
UK Government Gilts	UK Sovereign Rating	100%	5 years	
Bonds issued by multilateral development banks	AAA	100%	6 months	
UK Government Treasury Bills	UK Sovereign Rating	100%	5 years	
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):				
Government Liquidity Funds	UK Sovereign Rating	100%	Liquid	
Money Market Funds	AAA/Yellow	100%	Liquid	
Enhanced Money Market Funds (with a credit score of 1.25)	AAA/Dark Pink	100%	Liquid	
Enhanced Money Market Funds (with a credit score of 1.50)	AAA/Light Pink	100%	Liquid	
Bond Funds	AAA	100%	Liquid	
Gilt Funds	UK Sovereign Rating	100%	Liquid	
Structured Deposits				
Fixed term deposits with variable rate and variable maturities: Structured Deposits	Yellow	£20m	Up to 5 years	
Property Funds	A full risk evaluation of any fund will be undertaken prior to investment in conjunction with Capita Asset Services and reported to Members			

### **Corporate Bond Funds, Corporate Bond, Equity Funds and Property Funds**

These types of funds are essentially VNAV (Variable Net Asset Value) funds, i.e. NAV changes on a daily basis. Capita Asset Services does not have a specific duration or

monetary limits on these investment instruments. As such it is suggested that investment into these types of instruments requires a medium term investment strategy (2-5 years+) in order to achieve a reasonable amount of return, both income and capital gain, enhancing returns against the conventional vanilla deposits. Please note that most of these funds are not rated by agencies, so risk analytics must be carried out on an individual fund by fund basis; focusing on, for example, portfolio holdings, diversification of assets, past returns, fund manager experience, fees, asset class forecasts etc.

If considering investing into individual corporate bonds the Council will use the same criteria as that for individual financial institutions. Corporate Bonds are usually grouped by credit rating as follows:

- Investment-grade bonds (BBB or higher)
- High yield/Speculative/Junk bonds (BB and below) **assumed to have a high level of risk and therefore not considered**

Corporate Bonds as an asset class are at the higher end of the risk curve. They have high market risk as the price of the bonds moves day to day and will move with greater volatility than, say, gilts as they have a lower credit rating. Liquidity risk is high as it would be difficult to sell a bond whose issuer is perceived to be performing poorly. Credit risk is high as very few, if any, Corporate Bonds would have the same credit quality as a Gilt or Supranational.

**Please note investing in a Property Fund would constitute capital expenditure.**

#### **Notes:**

- <sup>1</sup> If a deposit is to be placed with subsidiary of a parent bank and the subsidiary does not have a credit rating in its own right, then details of the guarantee from the parent must be sought prior to the investment being placed. The Council will only rely on unconditional guarantees.
- <sup>2</sup> Currently refers to Royal Bank of Scotland Group which includes NatWest, RBS and Ulster Bank (Ulster Bank currently suspended) is 84% owned by the government and the government has a 41% stake in Lloyds Banking Group, which is made up of Bank of Scotland and Lloyds Bank PLC
- <sup>3</sup> Specifically applies to Approved Countries detailed in Appendix 6 with a minimum AA+ sovereign rating.
- <sup>4</sup> As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a Local Authority.

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

#### **INDIVIDUAL FINANCIAL LIMITS (SPECIFIED & NON-INVESTMENTS):**

Institution	Financial Limit £m
DMO	No Limit
Banks (including nationalised and part nationalised)	10
UK Building Societies	10
UK Central Government	No Limit
UK Local Authorities	10
Collateralised Deposit (Local Authority backed)	10
Multilateral Development Banks	10
Money Market Funds (and other OCEIs)	10

## **WHOLLY OWNED SUBSIDIARIES**

**Institutions who do not have an individual credit rating but who are wholly owned (subsidiary):**

Applies to:

Institutions that do not have an individual credit rating but who are wholly guaranteed by a parent institution, which meets the Council's minimum lending criteria, for that particular type of institution, or who are wholly guaranteed by the UK Government.

In this instance the parent institution or guarantor's creditworthiness will be taken as the basis for the investment.

Investment limits will apply to both the Parent and its guaranteed subsidiary in total, i.e. the subsidiary in this case will account for its parent's credit limit; one limit will apply as the subsidiary effectively does not have its own limit or credit rating.

UK Government guarantees can apply to any institution

## **GROUP LIMITS**

Group limits apply where a number of financial institutions are under one ownership i.e. are part of the same banking group; in this instance the 'Group' limit is the same as the individual limit for any one institution within that group, as financial exposure should be limited to the Group as a whole.

## **DETERMINING INSTITUTIONS UNDER SAME OWNERSHIP:**

In determining which banks are part of the same banking group reference will be made to the banking list provided by Capita Asset Services.

This list should not be used as a prescriptive list as it is simply impossible to monitor the mergers and acquisitions of all banks and institutions on a global level. FITCH ratings also take this view and do not supply a prescriptive list of all groups. However, it should be noted that Capita Asset Services endeavour to keep this as up to date as possible for merger/acquisition activity in the market.

## **CONSIDERING DEGREE OF OWNERSHIP & COUNTRY OF SOVEREIGNTY**

Regarding the degree of ownership of banks and in particular looking at UK institutions, rating agencies specify where the banks are domiciled but this is not to say that this country will support the bank in the event of default. The banks themselves also do not tend to specify which country would support them as the circumstances surrounding a default and how a default would unfold is unknown.

As the degree of ownership is not known either, 'Groups' covers any financial institutions in the same/related group despite degree of ownership.

Looking at the Banking Act 2009 this highlights the powers that can be used in the UK if needed. It states that the objective is to protect and enhance stability, protect UK funds etc.,

1. 'bank' means a UK institution which has permission under Part 4 of the Financial services and markets act 2000 to carry out regulated activity of accepting deposits'
2. 'UK institution' means an institution which is incorporated in, or formed under the law of any part of the UK.

Therefore:

*If a bank in the UK is set up as a subsidiary in the UK, in that it is established as such as a legal entity in the UK, then despite its parentage and the country of origin, it should be recognised as a UK bank. This is the case for Santander UK PLC and so the Sovereign rating to be applied would be that of the UK.*

*If, alternatively, the Bank has a branch in the UK and does not meet the above criteria, then the Bank is effectively extending its base platform into another country through a branch network and should be recognised in the Country where its head office resides, i.e. the Bank of Abu Dhabi has branches in the UK however it is domiciled in the UAE - the Sovereign rating to be applied would be that of the UAE.*

Capita Asset Services 'Credit List' issued on a Friday each week gives counterparties per sovereign country to clarify where uncertainties arise, so for example,

Santander UK PLC is part of the Banco Santander Group; when making an investment one should refer to the Sovereign rating of the UK as it is a UK subsidiary of a Spanish bank with whom the investment would be placed. When investing with Santander UK PLC up to the individual limit of £10m, no further investments may be made within the Banco Santander Group for the duration of the investment; the same would apply when investing with Banco Santander except the Sovereign rating in this instance would be that of Spain.

If uncertainty exists to the Sovereign Country the dealer must check with Capita Asset Services prior to making any investment.

It should however be noted that the Treasury Manager will, for the most part, manage the Counterparty list and banks will be listed according to their Group structure and Sovereign Country. It is only expected that in cases where there is a need for an additional bank to be added at short notice, i.e. when there is a shortage of Counterparties with whom an investment can be made, that a reserve dealer would make the necessary checks.

### **SPECIFIED V. NON-SPECIFIED**

With the unceasing flow of investment products and their increasing sophistication it is more difficult to categorise many investment instruments definitively as Specified or Non-Specified. The Council will determine that split given the following:-

- the level of expertise and experience available in house in the treasury management function;
- the level of expertise and experience available through support provided by external consultants or other services;
- the degree of research and understanding required to fully understand all the risks attached to an investment instrument;
- the nature of controls that need to be put in place to manage those risks;
- how complex, or otherwise, it would be for the treasury management team to use an investment instrument in practice in the first place, and then to manage it;

- the level of staff resource available to the treasury management function the level of expertise and experience of councillors in treasury management.

**CREDIT RATING COMPONENTS**

Capita Asset Services creditworthiness service uses ratings from all three major rating agencies, namely; Fitch, Moody's and S&P. Each agency has its own credit rating components to complete their rating assessments.

**FITCH*****Long Term Rating***

These generally cover maturities of up to five years. Given the larger time horizon over which the long-term rating is determined, the emphasis is on the assessment of the on-going stability of the institution's prospective financial condition, for example, the sensitivity to fluctuations in market conditions, the capacity for maintaining profitability or absorbing losses in a difficult operating environment.

***Short Term Rating***

These cover obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments.

The Far Eastern crisis in 1997 demonstrated that the short-term rating could be insufficient when viewed in isolation. The long-term rating adds an important dimension in evaluating the vulnerability of an institution to rapid changes in economic conditions and therefore gives a better perspective on overall creditworthiness.

It must be remembered, though, that the long-term rating of any financially weak institution with strong external support is susceptible to any diminution, actual or perceived, in that support, as occurred when the state guarantee to the German Landesbanks was terminated on 18 July 2005.

**MOODY'S*****Long Term Rating***

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised.

***Short Term Rating***

Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

**STANDARD & POOR'S**

Standard & Poor's' ratings comprise of two components;

***Long Term Rating***

Long Term credit ratings are based, in varying degrees, on the following considerations:

Likelihood of payment - capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;



Nature of and provisions of the obligation;

Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default

### **Short Term Rating**

Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days-including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations.

### **COMPARISON OF RATINGS**

Nearest equivalent comparisons are made in the tables below.

Short Term			Long Term		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
F1+	P-1	A-1+	AAA	Aaa	AAA
			AA+	Aa1	AA+
			AA	Aa2	AA
F1	P-1	A-1	AA-	Aa3	AA-
			A+	A1	A+
			A	A2	A
F2	P-2	A-2	A-	A3	A-
			BBB+	Baa1	BBB+
F3	P-3	A-3	BBB	Baa2	BBB
			BBB-	Baa3	BBB-
B		B	BB+	Ba1	BB+
			BB	Ba2	BB
			BB-	Ba3	BB-
			B+	B1	B+
			B	B2	B
			B-	B3	B-
C		C	CCC+	Caa1	CCC+
			CCC	Caa2	CCC
			CCC-	Caa3	CCC-
			CC+	Ca	CC+
			CC	Ca	CC
			CC-	Ca	CC-
			C+	C	C+
			C	C	C
			C-	C	C-
D		D	DDD	D	DDD
			DD	D	DD

Short Term				Long Term		
Fitch	Moody's	S&P		Fitch	Moody's	S&P
				D	D	D

**APPROVED COUNTRIES****FOR INVESTMENTS**

<b>AAA</b>	<b>AA+</b>	<b>AA</b>	<b>AA-</b>
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	Netherlands	France	Saudi Arabia
Denmark	Hong Kong	Quater	
Germany	United Kingdom		
Luxembourg	USA		
Norway			
Singapore			
Sweden			
Switzerland			

**Explanation of Sovereign Ratings**

The above uses Fitch as a basis for Country sovereign ratings. Below provides a guide as to what the relative ratings mean.

**AAA: Highest credit quality.**

‘AAA’ ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

**AA: Very high credit quality.**

‘AA’ ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

**A: High credit quality.**

‘A’ ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

**BBB: Good credit quality.**

‘BBB’ ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

**BB: Speculative.**

‘BB’ ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.

**B: Highly speculative.**

'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

**CCC: Substantial credit risk.**

Default is a real possibility.

**CC: Very high levels of credit risk.**

Default of some kind appears probable.

**EQUALITIES IMPACT ASSESSMENT****Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2016/17**

<b>Title:</b>  <b>Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2016/17 (TMS, AIS &amp; MRPP)</b>	<b>Date: 26 January 2016</b>
	<b>Stage: Final</b>
	<b>Service Area: Corporate and Support Services</b>
	<b>Lead Officer: John Parkinson</b>

**Stage 1: Do you need to complete an Equality Impact Assessment (EIA)?**

*Not all policies will require an EIA: these key questions will help you to decide whether you need to conduct an EIA (see guidance notes at the end of this form).*

The following EIA is required as the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2016/17 (TMS, AIS & MRPP) is a key strategic policy of the Council.

The Council's priorities (outlined in the Council Plan) guide how the Council's funds are allocated and prioritised; the TMS, AIS & MRPP is accordingly focused on these principles. A separate EIA has been produced on the Council's priorities and as such it is not within the scope of this EIA to consider where money is allocated.

The Council is required to operate a balanced revenue budget, which broadly means revenue cash raised during the year will meet its revenue cash expenditure. The primary function of the Treasury Management Service is to ensure this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

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

*CIPFA defines treasury management as:*

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

The Treasury Management Strategy (TMS) includes a number of treasury and prudential indicators together with a broad over-arching requirement to specify the Council's Capital Financing Requirement (CFR), which denotes the Council's underlying need to borrow for capital purposes, in addition, the Council must ensure that external debt is kept within sustainable, prudent limits.

Treasury Management therefore creates the link between the Council's CFR and the structure of its external debt. Like the Council's borrowing limit (Operational Boundary) these are of direct relevance to the day to day financial management of the Council. Due to the size, complexity and importance of the income generated from treasury management activities it is important that all associated risks are assessed and managed. The Strategy reflects practices for controlling interest rate exposure, the maturity

structure of the Council's borrowing and the risks associated with investment.

**Policy Aims:**

To provide a strategy based upon the latest CIPFA Treasury Management Code of Practice, which enables the Financial Management Service to operate the Council's treasury management function within the parameters approved by the Council. The policy aims to establish the Council's Treasury Management operating framework for the 2016/17 financial year, which includes specific criteria in respect of both borrowing and investment activities.

The intention of the TMS, AIS & MRPP is to set out how the capital spending plans are to be considered and in conjunction with this, develop an integrated treasury management strategy. The Strategy does this by setting out the policies and objectives of the Council's treasury management activities for the forthcoming financial year and thus assists the Council in achieving its overall approved policies, strategies and plans.

The TMS, AIS & MRPP supports:

- Effective financial planning and management contributes to the transformation, development and improvement of the Authority;
- Organising treasury management activities in line with the Council's approved policies, strategies and plans;
- Producing a TMS, AIS & MRPP ensures that resources are available when needed and the effective management of liquidity means there are no additional unbudgeted costs, so that the Council's business/service objectives are not compromised.
- Making the most of opportunities to improve the yield from the Council's investments within appropriate risk parameters;
- Utilising treasury management performance measures to assess the effectiveness of the treasury management function by using a combination of performance indicators, trend analysis, benchmarking and year on year comparison;
- Demonstrating value for money of the treasury management function and generating efficiencies;
- Ensuring that the Council's financial standing is robust, stable and sustainable, including the maintenance of cash balances; the Annual Investment Strategy (AIS) will lay down principals to determine the amount of funds that can be prudently committed, relevant considerations include the relationship between overall funds and foreseeable spending needs, together with the need to make provision to maintain adequate reserves.

This TMS, AIS & MRPP is split into two distinct areas:

**Capital**

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

**Treasury Management**

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

**Stage 2: What do you know?**

*An EIA should be based upon robust evidence. This stage will guide you through potential sources of information and how to interpret it. Understanding the current context is a key stage in all policy making*

*and planning (see guidance notes at the end of this form).*

The terms/scope of these policies and statements are driven by statute and best practice.

### **Regulatory Framework**

The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits.

Under the Act, Communities and Local Government has issued Guidance on Local Government Investments (revised March 2010) to structure and regulate the Council's investment activities.

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 - Statutory Instrument (SI) 3146 (plus subsequent amendments), develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Prudential Framework for local authority capital investment introduced through the Local Government Act 20013 supports the Council's strategic plans for Capital Investment at a local level.

The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (the Code of Practice).

CIPFA revised the Code of Practice in November 2011 following developments in the market place and the introduction of the Localism Act for English local authorities.

The Council adopted the revised Code of Practice on 23 February 2012 and operates its treasury management service in compliance with the Code and the above legislative and regulatory framework. Adoption of the Code of Practice is a requirement of the CIPFA Prudential Code.

The Council is solely responsible for the treasury management strategies and policies as it only concerns treasury management activity within the Council.

The Strategy and policies are implemented by the Council (Corporate and Support Services, Finance) following approval by the Council Meeting.

The Treasury Management Strategy provides a framework within which the Council will operate its Treasury Management function covering lending and borrowing activities and the management of cash flows. In addition to specifying limits and providing guidance with regard to borrowing and lending activities, the statements also aim to ensure that investments are only placed with suitable counterparties. The principle that overrides all others is that the security of the council's money outweighs all consideration of returns.

The Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy have all been drafted in accordance with statute and best practice guidance. Best practice guidance has been developed and improved by CIPFA on an on-going basis since 1992. Updates and revisions have been the subject of careful development and consultation at a national level with all major stakeholders (for example, local and central government, the audit commission, financial institutions, treasury management advisers and specialists etc).

Factors to ensure success:

- Adherence to the principles and guidance set out in the Strategy Statement;
- Stability in planning frameworks together with regular reviews of treasury management activity and performance.

Factors which may make it difficult to achieve these outcomes:

- Volatility in financial markets and the wider economy making it difficult to make optimum borrowing and lending decisions;

- Having sufficient access to counterparties with a strong credit rating to enable the Council to protect its investments.

### **Stage 2a: Further Data and Consultation**

*If you feel that the data and past consultation feedback you have is not sufficient to properly consider the impact before a decision is made then you may wish to supplement your evidence base with more data or further consultation. This should be proportionate to the scale of the decision and will depend on the gaps in your current understanding (see guidance notes at the end of this form).*

The TMS, AIS & MRPP is based on the Council's priorities as detailed in the Council Plan.

Equality legislation requires the Authority to address equality needs of different groups of people (relating to race, gender and disability) in the design and delivery of its services. The Treasury Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2016/17 does not directly impact on any of the services provided to the Council's stakeholders or how those services are structured. However the success of the Policy will have an impact on the extent to which sufficient financial resources are available to fund services to all members of the community.

In the consideration of the Council's Treasury Management Strategy and its equality obligations the Council will be mindful of the equality implications within the Borough of both the policy and any subsequent amendments.

The Council does not knowingly invest in non-ethical investments.

### **Stage 3: Results and Measures**

*As a result of what you have learned in Stage 2 what will you do to ensure that no group is unfairly and unlawfully impacted upon as a result of the proposed change(s)? (see guidance notes at the end of this form)*

The Treasury Management operation is monitored regularly throughout the year and reported alongside performance information. This Treasury Management Policy Statement specifies formal reporting arrangements of the Corporate Director, Corporate and Support Services to Committee/Council, to include at minimum, a strategy report (this report) at the start of the financial year, a mid-year strategy review report and an annual review report at the financial year-end. There are also additional monitoring reports at quarters one and three of the financial year. The reports give a mechanism for reviewing the Council's policies and for assessing the effectiveness of the last year's treasury management activities and the on-going performance of the treasury management function.

The CIPFA Treasury Management in Public Services Code of Practice, places emphasis on regular reporting on treasury management strategy and performance and scrutiny of treasury management strategy and policy to a specific named body. The Council has accordingly delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource and Governance Scrutiny Committee. In line with the Code, the Executive and CRMG have received annual training and updates since the 2009/10 financial year.

In addition to the regular treasury management reporting cycle detailed above, a consultation report is taken to CRMG on formulation of the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy prior to writing the report. Subject to the boundaries established by Statute, Regulation and the Code of Practice, this report seeks the views of CRMG on

- The Council's approach to borrowing;
- The Council's approach to the investment of surplus funds and the management of risk (AIS);
- The Council's MRP Policy and the Council's approach to providing for the repayment of debt.

The treasury management reporting arrangements consider the frequency of reporting, the level of detail reported and also the level within the Council in which reporting takes place. The reporting arrangements detailed above are the minimum, with additional reporting undertaken as deemed necessary.



Treasury Management reports ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Regular and meaningful management information on day-to-day activities is also an essential characteristic of the Council's treasury management function. The form and frequency of management reports reflects the scope and nature of the Council's treasury management activities throughout the financial year.

Regular treasury management reporting would also identify any emerging impacts, should they arise.

The Council has created appropriate methods by which the performance of its treasury management activities can be measured which assists in judging whether it is gaining value for money from the resources devoted to these activities, particularly in meeting its wider business and service objectives. The Council aims to achieve an appropriate balance between risk containment and value for money and believes that the overriding need for effective risk management should be reflected in its Treasury Management Policy Statement and Treasury Management Practices, Treasury Management Strategy & Annual Investment Strategy and various performance reports and reviews.

Performance measurement is a process designed to calculate the effectiveness of the Council's investment portfolio's returns and borrowing costs, and the application of the resulting data for the purposes of comparison with the performance of other portfolios (or managers), or with recognised industry standards or market indices.

***The benefits and applications of performance measurement include:***

- using past experience beneficially to future treasury management policies and practices
- by developing an appreciation of the factors influencing performance, improving the future processes of treasury decision-making
- allowing the Council to assess the potential for adding value through changes to the existing ways in which a portfolio is managed
- demonstrating an awareness of the need to review regularly the value attached to the treasury management function, and enhancing accountability
- enhancing the information available to the Council when seeking to review an existing manager's performance or when selecting a new manager
- permitting an informed judgement and decision about the merits or otherwise of using new treasury management instruments or techniques.

***The Council has a number of approaches to evaluating treasury management decisions-***

- quarterly reviews carried out by the treasury management team
- bi-weekly review/position report to Corporate Director, Corporate and Support Services
- reviews with treasury management consultants
- annual review as reported to Committee
- comparative reviews
- strategic, scrutiny and efficiency best value reviews

***Periodic reviews during the financial year***

The Head of Finance holds a treasury management review meeting with the Treasury Management Group on a bi-monthly basis to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

***Reviews with external treasury management consultants***

The treasury management team holds reviews with external treasury management consultants at least every six months to review the performance of the investment and debt portfolios.

***Annual Review after the end of the financial year***

Following on from Quarterly Performance Reports & Mid-Year Report; an Annual Treasury Report is

submitted to the Council each year after the close of the financial year which reviews the performance of the debt/investment portfolios.

This report contains the following: -

- total debt and investments at the beginning and close of the financial year and average interest rates
- borrowing strategy for the year compared to actual strategy
- investment strategy for the year compared to actual strategy
- explanations for variance between original strategies and actual
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- comparison of return on investments to the investment benchmark
- compliance with Prudential & Treasury Indicators

### ***Scrutiny of Treasury Management Strategy & Policy***

Consultation and Review is sort during the year through the Corporate, Resource Management and Governance Scrutiny Committee on treasury management reports, the Treasury Management Policy Statement and Treasury Management Practices. Treasury management performance and policy setting is subject to prior scrutiny.

### ***Comparative reviews***

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential & Treasury Indicators are locally set). Data used will be sourced from: -

- Greater Manchester Treasury Management Group

### **Stage 4: Decision Stage**

*Once your plan/policy is fully developed it will need to go through the correct scrutiny and approval channels: the EIA should be included as part of this (see guidance notes at the end of this form).*

This pro forma will accompany the 2016/17 Treasury Management Strategy, Annual Investment Strategy and Revised Minimum Revenue Provision (MRP) Policy report at the Executive Meeting on 16 February 2016 and the Council Meeting on 3 March 2016.

## **EXECUTIVE MEETING**

Meeting: 16 February 2016  
At: 6.00 pm

### **PRESENT**

Councillor Sue Derbyshire (Leader of the Council) (Chair) in the chair; Councillor Iain Roberts (Deputy Leader of the Council (Support & Governance)) (Vice-Chair); Councillors Shan Alexander (Safe & Resilient Communities), Martin Candler (Supporting Places), Keith Holloway (Supporting Adults), Wendy Meikle (Supporting Children) and John Pantall (Independence & Wellbeing).

### **1. MINUTES**

The Minutes (copies of which had been circulated) of the meeting held on 5 January 2016 were approved as a correct record and signed by the Chair.

### **2. DECLARATIONS OF INTEREST**

Councillors and officers were invited to declare any interests they had in any of the items on the agenda for the meeting.

No declarations of interest were made.

### **3. URGENT DECISIONS**

No urgent decisions were reported.

### **4. PUBLIC QUESTION TIME**

Members of the public were invited to submit questions to the Executive on any matters within its powers and duties, subject to the exclusions set out in the Code of Practice.

Four questions were submitted. Two of the questions had been submitted by a member of the public who was not present at the meeting. The Chair confirmed that, in accordance with the Code of Practice, written responses would be provided to these questions.

- (1) The first question asked why information that had not yet been published by the Council about the proposed Executive Budget and Council Tax levels was published in a political leaflet and whether it was misleading and disrespectful to Group Leaders who had been informed that proposals had not been finalised.

In response the Leader of the Council stated that the information provided to Group Leaders had been honestly given, and that because of the late announcement of the finalised Local Government Settlement her group had not been able to decide their position with respect to the budget, which had been done the previous evening. She added that the information in the leaflet referred to was already in the public domain as these were the assumptions contained in the financial landscapes report submitted to

the Executive in December 2015 and Council Tax assumptions were those used by the Chancellor of the Exchequer in the settlement process.

- (2) The second question sought an explanation for why it was proposed to raise Council Tax given that there was a projected £4m budget surplus at the end of this year, an additional £2m allocation of transitional funding over two years in the Local Government Finance Settlement, inflation was 0.3% and the projected funding shortfall for the 2016/17 budget was only £1.3m.

In response the Leader of the Council stated that inflation was not used in the calculation of the Local Government Finance Settlement by the Chancellor, but that calculation had been based on the assumption that local authorities would raise Council Tax by 1.75% in addition to the 2% social care precept. The budget preparations in December 2015 prior to the initial Settlement figure had not included any transitional grant element, and that this had only been announced on Monday, 8 February. The commitment of projected surpluses would not be prudent as it was not certain this would be available at year end. She stated that the Executive sought to plan a budget over two years, and that using one off resources to reduce the budget pressures would simply delay the need to make a larger saving in the future.

The Leader of the Council further stated that while the need for deficit reduction was acknowledged, she, along with many other Council leaders of differing political persuasions, felt that local authorities had taken a disproportionate burden of this policy.

#### Performance and Budget

### **5. CORPORATE PERFORMANCE AND RESOURCES - FINAL UPDATE REPORTS 2015/16 (NON-KEY)**

The Executive Councillor (Support & Governance) submitted a report (copies of which had been circulated) providing the Executive with a report on the delivery of the Council's Priority Outcomes and budget during the third quarter of 2015/16, including updates on key activity during the quarter.

The Leader's Report for the same quarter was also included, which highlighted significant achievements and areas of progress, including the latest plans for devolution to the Greater Manchester Combined Authority.

RESOLVED – That in relation to the Corporate Performance and Resources Final Update Reports 2015/16:-

- progress against delivering the Council Plan's Investing in Stockport outcomes and capital schemes alongside budget and performance forecasts contained within the report be noted;
- the virements to the Revenue Budget set out in section 2.2.3 of the report be approved;
- the cash limit and non-cash limit forecast positions for 2015/16 as set out in sections 2.3 and 2.6 of the report be noted;

- the position on the 2015/16 budget savings programme set out in section 2.4 of the report be noted;
- the Retained Schools Budget and Housing Revenue Account forecast positions as set out in sections 2.7 and 2.8 of the report be noted;
- the contributions to/from earmarked reserves and balances as set out in section 2.9 of the report be approved and the forecast reserves and balances position be noted;
- the forecast position for the 2015/16 Capital Programme as set out in section 3.1 of the report be noted;
- the changes to the Capital Programme as set out in 3.1.5 of the report be approved;
- the proposals for resourcing the Capital Programme as set out in 3.3.4 of the report be approved; and
- the treasury review and activity during the third quarter as set out in section 4 of the report be noted.

#### **6. Q3 2015/16 COMPLAINTS REPORT (NON-KEY)**

The Executive Councillor (Support & Governance) submitted a report (copies of which had been circulated) providing the Executive with an overview of complaints received in the third quarter of 2015/16 and outlining any lessons learnt as a consequence.

RESOLVED – That performance in relation to complaints received in the third quarter of 2015/16 be noted.

#### **7. INVESTING IN STOCKPORT - STOCKPORT COUNCIL PLAN 2016/17 (SG10)**

The Leader of the Council submitted a report (copies of which had been circulated) inviting the Executive to consider the draft Council Plan for 2016/17. The draft Plan had been refreshed to reflect the move to the delivery phase of the Investing in Stockport programme, but is also aligned with the longer-term vision set out in the Borough Plan, and supported the delivery of the Medium Term Financial Plan.

RESOLVED – That the draft 2016/17 Council Plan be endorsed and the Council Meeting be recommended to adopt the Plan.

#### **8. EDUCATION FUNDING SETTLEMENT AND LOCAL FORMULA 2016/17 (NON-KEY)**

A joint report of the Executive Councillors (Safe & Resilient Communities) and (Support & Governance) was submitted (copies of which had been circulated) inviting the Executive to consider key announcements from the Department for Education on the Education Funding Settlement for 2016/17, including the commitment to a new national funding formula for 2017/18, and seeking approval, in light of the consideration of the matter by the Schools Forum, the local formula to be used to determine individual school budgets in Stockport for 2016/17.

RESOLVED – (1) That the details of the Education Funding Settlement for 2016/17 be noted.

(2) That the amendment of the local formula for 2016/17 as outlined in 5.2 and summarised in the table in 7.2 for the report be approved, to form the basis of the

calculation of school budgets and that this be notified to the Department for Education in accordance with statutory requirements.

**9. MEDIUM TERM FINANCIAL PLAN - FINANCIAL LANDSCAPES AND FORECAST 2016/17 TO 2020/21 (UPDATE FOLLOWING THE LOCAL GOVERNMENT FINANCE SETTLEMENT) (NON-KEY)**

The Executive Councillor (Support & Governance) submitted a report (copies of which had been circulated) updating the Executive on the forecasts for the Council's finances for the period 2016/17 to 2020/21 following the final Local Government Finance Settlement announced on 8 February 2016.

The Executive Councillor highlighted some of the challenges facing the Council and some the key elements of the settlement, including a larger than anticipated reduction in revenue grant and the provision of non-recurrent transitional grant funding over 2 years.

The Executive Councillor (Independence & Wellbeing) highlighted the challenge of the reduction in Public Health grant.

RESOLVED – That in relation to the Medium Term Financial Plan - Financial Landscapes and Forecast 2016/17 to 2020/21 and update settlement figures:-

- the details of the 2016/17 local government finance settlement and its impact on the forecasts presented in this report be noted;
- the financial forecasts for 2016/17 to 2020/21, and the key issues to be addressed in formulating a response to the financial challenges facing the Council be noted;
- the indicative budget adjustments as set out at paragraph 5.3 of the report be approved;
- the savings requirement for 2016/17 of £1.315m and the indicative cumulative savings requirement of £18m for 2017/18, £35m for 2018/19, £47m for 2019/20 and £61m for 2020/21 be noted;
- the final steps necessary to propose a balanced budget for 2016/17 and an updated Medium Term Financial Plan for presentation to the Budget Council meeting on 3 March 2016 continue to be taken.

**10. 2016/17 REVENUE BUDGET, CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL PLAN (SG18)**

A joint report of the Leader of the Council and the Executive Councillor (Support & Governance) was submitted (copies of which had been circulated) outlining the Executive's Revenue Budget proposals, and Capital Investment Plans and the prospects for the Council's finances for the medium term.

The Executive Councillor (Support & Governance) highlighted that the Executive was proposing a 3.5% increase in Council Tax, which included the 2% social care precept, and that further proposals in relation to the use of the transitional grant funding would be submitted to the Council Meeting.

The Leader of the Council commented on the challenge of preparing the budget proposals given the lateness of the Local Government Finance Settlement, but thanked those

involved for their hard work. She emphasised that the proposals would deliver the savings originally planned that would assist in meeting the Council's future financial challenges.

RESOLVED – That in relation to the proposed 2016/17 Revenue Budget, Capital Programme and Medium Term Financial Plan, the Council Meeting be recommended to:

- agree the Budget for 2016/17 described in the report and set out in Appendix Three;
- note and comment upon the financial forecasts for 2016/17 to 2020/21 (Appendix Eight), and the key issues to be addressed in formulating a response to the future financial challenges facing the Council;
- pass the appropriate Council Tax resolutions to produce a Council Tax increase of 3.75% (inclusive of a 2% increase in relation to a Social Care Precept) for Council services as illustrated at Appendix Eleven;
- approve the capital programme and the funding arrangements as described in section eight of the report and set out at Appendix Nine;
- approve the prudential indicators set out in Appendix Ten; and
- note the risk assessment of the Budget at Appendix Six and the report of the Corporate Director for Corporate and Support Services on the adequacy of proposed financial reserves and robustness of the estimates included at Appendix Seven.

#### **11. TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MRP POLICY 2016/17 (SG17)**

The Executive Councillor (Support & Governance) submitted a report (copies of which had been circulated) inviting the Executive to consider the proposed 2016/17 Treasury Management Strategy, Annual Investment Strategy, Revised Minimum Revenue Provision Policy and prudential and sustainable Treasury and Prudential Indicators constructed in compliance with the CIPFA Treasury Management Code of Practice.

On behalf of the Executive, the Leader of the Council thanked officers involved with treasury management for their strong stewardship of Council resources.

RESOLVED – That in relation to the Treasury Management Strategy, Annual Investment Strategy and Revised Minimum Revenue Provision Policy the Council Meeting be recommended to approve:-

- revised Minimum Revenue Provision Policy for 2015/16 & 2016/17;
- Capital Expenditure Forecasts and Capital Financing Requirement projections;
- Treasury Management Strategy 2016/17;
- Treasury and Prudential Indicators and Limits 2016/17-2018/19; and
- Annual Investment Strategy (AIS) 2016/17.

#### **Key Decisions**

#### **12. RECOVERY POLICY (SG9)**

The Executive Councillor (Support & Governance) submitted a report (copies of which had been circulated) inviting the Executive to consider a revised Corporate Debt Recovery

Policy that had been reviewed following legislative changes and consideration of council tax collection processes by a cross-party working group of councillors.

The Executive Councillor thanked those councillors who had participated in the Council Tax Collection Working Group.

RESOLVED – That the Corporate Debt Recovery Policy document attached at appendix 1 of the report be approved.

### **13. ASSET MANAGEMENT PLAN CAPITAL PROGRAMME 2016/17 - 2018/19 (SG19)**

The Executive Councillor (Support & Governance) submitted a report (copies of which had been circulated) inviting the Executive to consider the Asset Management Plan (AMP) capital programme that prioritised the upgrade work and improvements to core operational buildings within the Council's corporate estate. This report provided an update on progress of the AMP capital programme for 2015/16 and set out the programme to be delivered for 2016/17 and indicative programmes for 2017/18 and 2018/19.

RESOLVED – That in relation to the Asset Management Plan Capital Programme 2016/17 - 2018/19:-

- the Asset Management Plan Capital programme for 2016/17 the financing thereof, and the Indicative AMP programme for 2017/18 to 2018/19, as set out in the report, be approved;
- the application of corporate resources to fund the AMP programme 2016/2017 to 2018/2019 be approved; with the application of funding types (capital receipts (including total achieved from the Office Rationalisation Programme) and borrowing) being delegated to the Corporate Director for Corporate and Support Services in conjunction with the Estates Strategy Group (ESG);
- annual update reports on progress be submitted to the Executive and the Corporate, Resource Management & Governance Scrutiny Committee;
- the support for these recommendations by the Corporate, Resource Management & Governance Scrutiny Committee at its meeting on 2 February 2016 and that members requested further information in relation to the £1m allocated for the 'Office Rationalisation Programme' be noted.

### **14. VISITOR PERMIT PARKING REPORT (SP4)**

The Executive Councillor (Supporting Places) submitted a report (copies of which had been circulated) inviting the Executive to consider the report and recommendations of the Visitors Parking Permits Working Party relating to visitor permits in residential parking schemes. Further recommendations had been made by the Environment and Economy Scrutiny on changes to the residential parking scheme and work undertaken to address these points, which were contained in the report.

RESOLVED – That in relation to the recommendations made by the Visitor Parking Permit Working Party and the views of the Environment & Economy Scrutiny Committee,

- the Permit Parking Policy be amended such that any resident in a charged for residents parking zone, in possession of Leisure Key Band A, who applies for a visitor parking



permit, pays £16.19 per permit from the 2016/17 financial year and that non-Leisure Key Band A residents visitor parking permit costs increase to £32.37.

- these changes be subject to a review 12 months after their implementation, and
- further research is undertaken to bring forward a potential virtual permit system.

#### **15. STOCKPORT RAIL STATION MASTERPLAN (SP13)**

The Executive Councillor (Supporting Places) submitted a report (copies of which had been circulated) inviting the Executive to consider the proposals contained within the draft Stockport Rail Station Masterplan. The masterplan summary report was attached at appendix A.

Executive councillors welcomed the ambition of the proposals for the station and the surrounding environment, noting that the station was not within the Council's ownership.

RESOLVED – That the draft Stockport Rail Station Masterplan be endorsed and that officers be requested to work with key stakeholders to seek to implement the plan.

#### **16. STOCKPORT TRAFFORD ALLIANCE FRAMEWORK EXTENSION (SP16)**

The Executive Councillor (Supporting Places) submitted a report (copies of which had been circulated) inviting the Executive to approve a two-year extension of the Stockport Trafford Alliance Partnering Contract from 1 April 2017, for the procurement of specialist contractors for the maintenance and improvement of road and highway structures, in view of the effectiveness of the arrangements to date.

RESOLVED – That approval be given to the extension of the Stockport Trafford Alliance Partnering Contract for a further two years from 1 April 2017 until 31 March 2019.

#### **17. ADMISSIONS CONSULTATION REPORT 2017/18 (SRC3)**

The Executive Councillor (Safe & Resilient Communities) submitted a report (copies of which had been circulated) inviting the Executive to consider the outcome of a consultation on proposed changes to the schools' admission arrangements for 2017/18.

RESOLVED – That in relation to the Admission Arrangements for 2017/18, the following be endorsed:-

- the Local Authority supports the reviewed proposal to change the catchment area for Westmorland Primary School, St Paul's CE Primary School, Werneth School and Reddish Vale High School.
- the Local Authority supports the introduction of interim criteria for an initial 3 year period from 2017/18, to be reviewed each year prior to determination.

#### **18. AGMA AND GMCA DECISIONS - DECEMBER 2015 AND JANUARY 2016**

The Leader of the Council submitted a report (copies of which had been circulated) setting out decisions taken by the Greater Manchester Combined Authority & AGMA Executive Board Joint Meeting and the Greater Manchester Combined Authority meetings held on 18 December 2015 and 29 January 2016.

RESOLVED – That the report be noted.

**19. TO CONSIDER RECOMMENDATIONS OF SCRUTINY COMMITTEES**

There were none to consider.

The meeting closed at 6.38 pm