Public Document Pack

JOHN WARD
Head of Finance and Governance Services

Contact: Philip Coleman, Member Services Manager
Tel: 01243 534655 Email: pcoleman@chichester.gov.uk

East Pallant House
1 East Pallant
Chichester
West Sussex
PO19 1TY
Tel: 01243 785166
www.chichester.gov.uk

A special meeting of **Cabinet** will be held in the Committee Rooms, East Pallant House on **Tuesday 26 January 2016** at **10.00 am**

MEMBERS: Mr A Dignum (Chairman), Mrs E Lintill (Vice-Chairman), Mr R Barrow, Mr B Finch, Mrs P Hardwick, Mrs G Keegan and Mrs S Taylor

AGENDA

Part 1

1 **Minutes** (Pages 1 - 14)
To approve as a correct record the minutes of the Cabinet meeting held on 5 January 2016.

2 **Urgent Items**
Chairman to announce any urgent items which due to special circumstances are to be dealt with under agenda item 8(b).

3 **Declarations of Interests**
Members and officers are reminded to make any declarations of disclosable pecuniary, personal and/or prejudicial interests they may have in respect of matters on the agenda for this meeting.

4 **Public Question Time**
Questions submitted by members of the public in writing by noon on the previous working day (for a period up to 15 minutes).

RECOMMENDATIONS TO COUNCIL

5 **Leisure Services Management Contract** (Pages 15 - 44)
Referring to minute 645 of 9 September 2014, this report sets out the leisure management procurement process undertaken and the criteria used to assess the technical and commercial aspects of the tender returns. The report proposes that the Council be recommended to outsource the management of the Council's Leisure Centres and the Sports Development Services, and that the Cabinet should select a preferred contractor, if that is agreed. A confidential report provides more detail of the evaluation process against the criteria.

6 **Treasury Management Strategy 2016/17** (Pages 45 - 78)
To review treasury management performance in the current year and to recommend to the Council a Treasury Management Strategy and related documents for 2016 -17 and changes to the current year's strategy.

7 **Exclusion of the Press and Public**
There are no restricted items for consideration at this meeting. However, the Cabinet will be asked to consider in respect of agenda item 5 whether the public,

including the press, should be excluded from part of the meeting on the grounds that it is likely that there would be a disclosure to the public of ‘exempt information’ of the description specified in Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A to the Local Government Act 1972, and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

The relevant reports are attached for members of the Council and senior officers only (salmon paper).

8 **Consideration of any late items as follows:**

a) Items added to the agenda papers and made available for public inspection
b) Items which the chairman has agreed should be taken as matters of urgency by reason of special circumstances to be reported at the meeting

NOTES

1. The press and public may be excluded from the meeting during any item of business wherever it is likely that there would be disclosure of “exempt information” as defined in section 100A of and Schedule 12A to the Local Government Act 1972

2. Subject to the provisions allowing the exclusion of the press and public, the photographing, filming or recording of this meeting from the public seating area is permitted. To assist with the management of the meeting, anyone wishing to do this is asked to inform the chairman of the meeting of their intentions before the meeting starts. The use of mobile devices for access to social media is permitted, but these should be switched to silent for the duration of the meeting. Those undertaking such activities must do so discreetly and not disrupt the meeting, for example by oral commentary, excessive noise, distracting movement or flash photography. Filming of children, vulnerable adults or members of the audience who object should be avoided. (Standing Order 11.3)

4. A key decision means an executive decision which is likely to:
- result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council’s budget for the service or function to which the decision relates or
- be significant in terms of its effect on communities living or working in an area comprising one or more wards in the Council’s area or
-incur expenditure, generate income, or produce savings greater than £100,000.

Non-Cabinet member Councillors speaking at Cabinet

Standing Order 22.3 provides that members of the Council may, with the chairman’s consent, speak at a Committee meeting of which they are not a member, or temporarily sit and speak at the Committee table on a particular item but shall then return to the public seating area.

The Leader of the Council intends to apply this Standing Order at Cabinet meetings by requesting that members should normally seek his consent in writing by email in advance of the meeting. They should do this by noon on the day before the meeting, outlining the substance of the matter that they wish to raise. The word “normally” is emphasised because there may be unforeseen circumstances where a member can assist the conduct of business by his or her contribution and where he would therefore retain his discretion to allow the contribution without notice.

Minutes of the meeting of the **Cabinet** held in Committee Room 2 - East Pallant House on Tuesday 5 January 2016 at 9.30 am

Members Present: Mr A Dignum (Chairman), Mrs E Lintill (Vice-Chairman), Mr R Barrow, Mr B Finch and Mrs G Keegan

Members not present: Mrs P Hardwick and Mrs S Taylor

In attendance by invitation:

Officers present all items: Mrs D Shepherd (Chief Executive), Mr S Carvell (Executive Director), Mr P E Over (Executive Director), Mr J Ward (Head of Finance and Governance Services) and Mr P Coleman (Member Services Manager)

111 Minutes

RESOLVED

That the minutes of the meeting of the Cabinet held on 1 December 2015 be signed as a correct record.

112 Urgent Items

There were no urgent items for consideration at this meeting.

113 Declarations of Interests

Mrs Shepherd and Mr Ward each declared a personal and prejudicial interest as a statutory officer in agenda item 9 (Disciplinary Action Against Statutory Officers: The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015). They withdrew to the public seating area while that item was discussed and took no part in the discussion.

114 Public Question Time

No public questions had been submitted.

115 Review of the Members' Allowances Scheme: Report of the Independent Remuneration Panel

The Cabinet considered the report, together with the appended report of the Independent Remuneration Panel circulated with the agenda (copy attached to the official minutes).

The Chairman welcomed the members of the Independent Remuneration Panel to the meeting and commended them on their detailed and well-researched report. He invited the Chairman of the Panel to introduce themselves and to present their report.

Mr John Pressdee introduced himself and the two other members of the Panel, Mr Michael Bevis and Mr John Thompson.

Mr Pressdee explained that the Panel had previously reported in 2003, 2007/08 and 2011, although the composition of the Panel had varied over that period.

In making their current recommendations, the Panel had taken into account: that allowances should fairly reflect the time spent and responsibilities of the various roles; the financial positions of the Council and members; comparisons with allowances paid by other authorities; the views of members expressed in questionnaires and interviews; and that there was a public service voluntary element in the work of a councillor.

The Panel's recommendations were summarised in Part 2 and set out in detail in Part 3 of their report. The Panel had been asked to consider whether the allowances should be index-linked and had concluded that in this time of low inflation the allowances should be fixed until the next review. They recommended an increase in the Basic Allowance from £4,541 to £4,725. The Special Responsibility Allowances (SRAs) should be paid to the same postholders as now, with some uprating for inflation, except in the case of committee chairmen, where the Panel considered that there were differentials in the workload and responsibilities involved, and the Leader of the Opposition, which the Panel felt was a less demanding role than previously. The Panel had also recommended some clarification of and additions to the official duties for which travelling allowances should be payable.

Mr Barrow asked why the mileage rate for travelling allowances was above the 45p tax free allowance allowed by HMRC. The Panel replied that the members' mileage allowance rate had for a long time been the same as that paid to staff, and there had seemed no demand for this to be changed.

Mr Barrow also commented that the proposed differential between the SRAs paid to Cabinet Members and the Deputy Leader of the Council did not seem to fully recognise the workload involved in the latter post. Mr Dignum agreed and explained that, in addition to her own portfolio responsibilities, the Deputy Leader was fully briefed and shared in the Leader's decisions and was thus ready to take over the Leader's responsibilities if needed.

Mr Finch, from his previous experience as a member of the Corporate Governance and Audit Committee, did not understand the rationale for a reduction in the SRA for the Chairman of that committee.

The Panel explained that they had found it difficult to reach conclusions on the differentials between the SRAs for the committee chairmen. However, they had taken account of the workload and frequency of meetings of the committees, the public profile and the degree of professional support.

Mr Finch replied that, whilst he understood the case for differentials between committee chairmen, he felt that the workload and frequency of meetings of the Corporate Governance and Audit Committee had increased rather than decreased since the last review.

With the Chairman’s permission, Mrs Tull agreed that the workload of the Corporate Governance and Audit Committee had not decreased. Like the Overview and Scrutiny Committee, the Committee had an important role in holding the Executive to account. Members had to undergo annual training in treasury management, and also operated through Task and Finish Groups. She was concerned that the decrease in SRA and the relative differential with other committees down-played the important role of that committee.

RECOMMENDED TO COUNCIL

That the Council receives and considers the report of the Independent Remuneration Panel and makes decisions on its recommendations, and in particular reviews the Panel’s recommendations in respect of Special Responsibility Allowances for the Deputy Leader of the Council and the Chairman of the Corporate Governance and Audit Committee.

116 **Adoption of the Community Infrastructure Levy Charging Schedule**

Further to minute 733 of 3 March 2015, the Cabinet considered the report circulated with the agenda (copy attached to the official minutes).

In the absence of Mrs Taylor, Mr Dignum introduced the report, explaining that the Government had decided that the Community Infrastructure Levy (CIL) was the fairest way for new development to help fund the cost of infrastructure resulting from the cumulative impact of development of the area.

CIL was essentially a non-negotiable tax on the increase in the value of land that occurs when planning permission is granted. The rates to be charged were summarised in paragraph 4.4 of the report.

The draft Charging Schedule had been subject to two rounds of formal public consultation and an examination undertaken by an independent examiner from the Planning Inspectorate.

The Examiner’s role was to consider whether the Council’s proposed charging schedule met the requirements of the Planning Act 2008 and associated regulations. He also needed to be satisfied that the proposed rates were consistent with available viability evidence and would not threaten the delivery of planned development in the Local Plan area.

The examiner had supported the rates proposed by the Council and confirmed that the levy was justified and economically viable. This support had been given despite challenge from the development industry claiming that the rates proposed were too high. The levy would apply to residential and retail development outside of the National Park.

Adoption by the Council would mean that, after 1 February 2016, all relevant development would be subject to the levy. This would, in time, provide substantial funds for the Council to allocate to relevant infrastructure provision.

Mr Dignum concluded by asking that the Cabinet's thanks should be conveyed to Mrs Dower (Principal Planning Policy Officer (Infrastructure Planning)) for successfully seeing this important project through to conclusion.

Mrs Keegan asked why the proposed levies on convenience and comparison retail development were so different. Mr Allgrove (Planning Policy, Conservation and Design Service Manager) explained that convenience retail was mainly food shopping, whereas comparison retail related to clothes, white goods and other goods where customers would compare quality and prices. The levy took account of the viability of the two forms of retailing in the particular circumstances of Chichester.

RECOMMENDED TO COUNCIL

(1) That the Community Infrastructure Levy Charging Schedule (attached as Appendix 2) be adopted to take effect from 1 February 2016, incorporating modification EM1 (revised Charging Schedule map showing grid reference numbers) and further minor amendment (deleting B1, B2 and B8 uses so they are captured in the Standard nil charge);
(2) That the CIL Regulation 123 list (attached as Appendix 3) be adopted;
(3) That the CIL Payment by Instalments Policy (attached as Appendix 4) be adopted.

117 Recreational Disturbance at Pagham Harbour - Joint Approach to Mitigation with Arun District Council

This item was considered at this point in the meeting, because it was necessary for the Cabinet to make decisions on it, before recommending adoption of the Planning Obligations and Affordable Housing Supplementary Planning Document, which contains a reference to the Pagham Harbour mitigation measures at paragraph 4.66.

The Cabinet considered the report circulated with the agenda (copy attached to the official minutes).

Mr Barrow introduced the report, explaining that Pagham Harbour was an internationally important site for wild birds.

In order to protect it whilst allowing for future development, a joint scheme of mitigation for Arun and Chichester Districts, was proposed, based around a part time warden post at RSPB Pagham to make sure that additional visitors did not disturb the birds and stop them feeding or nesting.

This was similar to the Solent-wide scheme that covered Chichester Harbour, approved by the Cabinet in February 2015. The costs would covered by developer contributions and the report sought approval also for the Council to hold and invest these s106 funds jointly on behalf of Arun and Chichester, and to spend these funds, initially through an agreement with the RSPB as site managers. This joint scheme would avoid duplicating bureaucracy and mean that developers were treated the same in both Districts.

Without a strategic scheme that was funded “in-perpetuity”, Natural England would object to new housing development around the Harbour. This scheme, therefore, enabled the delivery of both the Chichester Local Plan and the draft Arun Local Plan.

Mrs Lintill asked how the proposed cost per house compared with the Solent scheme. Mr Day (Environmental Co-ordinator) replied that proposed cost per house for the Pagham scheme, as set out in Appendix 2, was £1,109 rising to £1,347. This compared with £174 in the interim Solent scheme. It was expected that the cost in the Solent scheme would increase after 2017 with the introduction of additional items to meet the requirements of the Habitat Regulations. However, the Pagham scheme would always be more expensive as it was a small stand-alone scheme supported by relatively small numbers of additional houses. However, it was considered that half a full time equivalent warden post was the minimum requirement for the scheme to operate.

RESOLVED

(1) That the joint scheme of mitigation for Pagham Harbour Special Protection Area (SPA) in Appendix 1 be endorsed.
(2) That the level of developer contributions to the joint scheme set out in Appendix 2 to this report be approved.
(3) That the holding of s106 funds by Chichester District Council on behalf of Chichester District Council and Arun District Council jointly be approved.
(4) That the expenditure of the joint s106 funds on the scheme of mitigation as specified in paragraph 5.5 be approved.

118 **Adoption of the Planning Obligations and Affordable Housing Supplementary Planning Document**

Further to minute 637 of 9 September 2014, the Cabinet considered the report circulated with the agenda (copy attached to the official minutes).

In the absence of Mrs Taylor, Mr Dignum introduced the report, explaining that the Council had produced a supplementary planning document (SPD) to explain how planning obligations would now be used following the introduction of the Community Infrastructure Levy (CIL). The SPD also set out the Council’s approach to securing affordable housing as part of new development. The document would be a material consideration in the determination of applications and appeals, and provide useful guidance for developers preparing planning applications.

The Council had carried out public consultation on the draft SPD in the autumn of 2014. All the representations made on the draft document and a recommended response to them were attached at appendix 1 to the report. The document had been amended to take account both of the representations and also of changing circumstances, given the time that had elapsed since the original consultation. These changes were set out at paragraph 3.1 of the report. The revised document was attached at appendix 2 to the report.

The Government was currently consulting on changes to national planning policy. In particular, as paragraph 1.9 made clear, the SPD would need amendment to take account of the Government's policy for Starter Homes in future revisions to the document, which would need to be the subject of public consultation. However, it was necessary to adopt the SPD now so that it had full weight in the determination of planning applications at the time the CIL was implemented, and not delay until the Government had finalised its policy.

RECOMMENDED TO COUNCIL

(1) That the proposed responses to representations received during consultation on the draft *Planning Obligations and Affordable Housing Supplementary Planning Document* be approved as set out in appendix 1 to the report;
(2) That the *Planning Obligations and Affordable Housing Supplementary Planning Document* be adopted as attached at appendix 2 to the report;
(3) That *The Provision of Service Infrastructure Related to new Development in Chichester District Supplementary Planning Guidance*, which was adopted in December 2004 to supplement the *Chichester District Local Plan First Review April 1999* be cancelled;
(4) That the Head of Planning Services be authorised, following consultation with the Cabinet Member for Housing and Planning, to make typographical and other minor amendments prior to publication.

119 Proposed approach for securing development contributions to mitigate additional traffic impacts on A27 Chichester Bypass

The Cabinet considered the report circulated with the agenda (copy attached to the official minutes).

In the absence of Mrs Taylor, Mr Dignum introduced the report, explaining that the Chichester Local Plan established the principle of seeking developer contributions to mitigate the traffic impacts on the A27 Chichester Bypass that would be generated by the housing development proposed in the Plan. Transport modelling work undertaken to support the Local Plan identified an indicative package of small scale measures for the six junctions on the Bypass. These measures were costed at £12.8 million.

The Council, in partnership with Highways England and West Sussex County Council, had commissioned Jacobs (the consultants that undertook the 2013 Chichester Transport Study) to undertake further traffic modelling work. Their resulting report set out a detailed methodology to calculate contributions from development locations towards the A27 mitigation package.

The proposed methodology apportioned the remaining cost of the A27 mitigation package between the outstanding Local Plan housing developments in direct proportion to the level of traffic impact that each development was expected to have on the Chichester Bypass junctions. Jacobs had used transport modelling to assess the number of morning peak hour trips per day from each proposed Local Plan development that would be expected to use the A27 Chichester Bypass junctions.

The table in the appendix showed the financial contribution calculated for each of the Local Plan housing developments. The locations that were expected to have the greatest traffic impact on the Chichester Bypass junctions would make the biggest contribution. That meant the Tangmere Strategic Development Location would pay the most, followed by the strategic development at Westhampnett.

It was now considered that the use of S278 agreements provided the most appropriate mechanism for financing development contributions to the A27 improvements. This approach would require site developers to enter into legal agreements directly with Highways England.

The use of S278 agreements, rather than CIL, to fund the A27 mitigation meant that the contributions sought must meet the statutory tests applicable to planning obligations as set out in the CIL regulations – namely that contributions are necessary to make the development acceptable in planning terms, are directly related to the development, and are fairly and reasonably related in scale and kind.

This report sought Cabinet approval to take forward the proposed approach for seeking A27 contributions to public consultation. This would be for a 6-week period following the Council meeting on 26 January. Subject to the outcome of the consultation, the intention was to incorporate the A27 contributions as an amendment to the Council's Planning Obligations Supplementary Planning Document (SPD) – (which had been recommended for adoption in the previous on this agenda).

If this proposed approach for obtaining developer contributions was adopted, it would generate sufficient funding to address the direct traffic impacts of the housing developments proposed in the Local Plan over the period to 2029. Mr Dignum emphasised that the contributions raised would not be sufficient in themselves to resolve the underlying traffic problems on the A27. However, the contributions would be used either to fund small scale mitigation measures for the A27 junctions, or to contribute towards the Government funded A27 Chichester improvement scheme which Highways England was currently developing.

In answering members' questions, Mr Allgrove emphasised that the methodology was key to the mitigation scheme and challenges from landowners and developers could be expected during the consultation process. He emphasised that the mitigation scheme identified the impact of the new development proposed in the Local Plan. It did not address existing congestion on the A27 nor its expected natural growth. The scheme intended that the new housing in the Local Plan would have a neutral impact. If Highways England went ahead with a trunk road improvement scheme for the A27, then the developer contributions under the mitigation scheme would be used towards that. It might be that the traffic modelling would need to be reviewed in that event, but it was necessary to proceed with the mitigation scheme now, as planning applications had already been received for new development.

RECOMMENDED TO COUNCIL

(1) That the methodology set out in this report be agreed as the basis for seeking development contributions to mitigate the impact of proposed Local Plan development on the A27 Chichester Bypass junctions or to contribute to a wider A27 improvement scheme;
(2) That the text in the Appendix be published as a potential modification to the Council's forthcoming Planning Obligations Supplementary Planning Document (SPD), for consultation for a six week period from Friday 29 January to Friday 11 March.

120 **Disciplinary Action Against Statutory Officers: The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015**

(Mrs Shepherd and Mr Ward withdrew to the public seating area for the duration of this item)

Further to minute 20 of 7 July 2015, the Cabinet considered the report circulated with the agenda (copy attached to the official minutes).

Mr Finch introduced the report, and reminded the Cabinet of their discussion in July 2015 of the disciplinary procedures relating to the protected officers, i.e. the Head of Paid Service (Chief Executive), Chief Finance Officer (Head of Finance and Governance Services) and Monitoring Officer. The Council had been required by Government Regulations to amend their Standing Orders, so that only the full Council could dismiss any of these officers and before doing so must consider the advice of an Independent Panel, the conclusions of any investigation into the proposed dismissal, and any representations from the relevant officer. The Council was no longer, however, required to follow the independent advice. This replaced the previous procedure whereby the Council was required to agree with the officer on the appointment of a Designated Independent Person and to follow the advice of that person.

However, the Government had failed to consult the officers affected through the national negotiating machinery and, particularly in the case of the chief executives, the previous arrangements were incorporated in their contracts of employment. The Cabinet had, therefore, deferred updating the disciplinary procedure to allow time for national negotiations to be concluded. It was now believed that national negotiations would not be resolved for some time and the Council had now been advised by South East Employers (SEE) to proceed with the introduction of a revised disciplinary procedure.

Mr Radcliffe (Human Resources Manager) confirmed that the proposed procedure set out in the Appendix followed SEE guidance and reflected the new legal requirements.

Mr Over drew attention to the recommended changes to the Constitution to take account of the new procedure.

RECOMMENDED TO COUNCIL

(1) That the revised Disciplinary Procedure for the Chief Executive, Head of Finance and Governance and Monitoring Officer be approved.
(2) That the terms of reference of the Investigation and Disciplinary Committee be revised to read as follows:-
"To consider allegations relating to the conduct or capability of the Chief Executive, the Chief Finance Officer and the Monitoring Officer and to take action in accordance with the Council's approved Disciplinary procedure for these officers, *including negotiation of a settlement agreement and (in the case of the Chief Executive only) suspension and disciplinary action short of dismissal."*
(3) That the following be added to the powers of the Chairman, and in his absence the Vice-Chairman, in Article 5 of Part 2 of the Constitution:-
"The Chairman of the Council has the power to suspend the Chief Executive in an emergency whereby his/her remaining presence at work poses a serious risk to the health and safety of others or the resources, information or reputation of the Council."

121 **Public Interest Disclosures (Whistleblowing) Policy**

The Cabinet considered the report and appendices circulated with the agenda (copy attached to the official minutes).

Mr Finch introduced the report, explaining that the "Whistleblowing" was reviewed annually to ensure that it remained compliant with legislation and best practice. On this occasion some changes were proposed, mainly to make it clear that the policy could be used by non-employees such as councillors, contractors and members of the public. The proposed changes had been recommended by the Corporate Governance and Audit Committee.

Mr Finch added that it was also suggested that the Head of Business Improvement Services should be authorised to approve minor changes to Human Resources policies, after consultation with the Cabinet Member for Support Services. In that capacity, he assured the Cabinet that he would ensure that any changes of significance were reported to and approved by members. The wording of the recommendation in the report had, therefore, been amended to reflect the fact that only minor legislative changes would be dealt with under this delegated power, and that significant legislative changes would be reported and approved by members, even if the Council had no choice in the matter.

RECOMMENDED TO COUNCIL

(1) That the revised Public Interest Disclosures (Whistleblowing) Policy be approved.
(2) That the Head of Business Improvement Services be authorised to approve future minor changes to Human Resources policies, including those of a

legislative nature, after consultation with the Cabinet Member for Support Services.

122 **Chichester Place Plan**

This item was deferred for further work before consideration at a later meeting.

123 **West Sussex Waste Partnership Update**

The Cabinet considered the report and appendices circulated with the agenda (copy attached to the official minutes).

Mr Barrow introduced the report. He reminded the Cabinet of his presentation to members before the Council meeting on 15 December 2015, where his main objective had been to highlight the EU target requiring local authorities to recycle 50% of household waste by the year 2020 and the challenge that lay ahead.

The purpose of this report was to outline the various work streams of the West Sussex Waste Partnership, with the focus being on meeting this target.

Before making any decisions on future waste management within the county it was important to know exactly what was being collected now. During the autumn, the materials from both waste and recycling bins had been sampled across the county to provide a waste composition analysis. This had last been done approximately ten years ago. It had provided some very interesting data, which should enable the Council to target specific messages in future communications with residents.

For example, it was now known that up to 20% of waste in the household waste bins could have been sent for recycling. Up to 8% of waste in the recycling bins caused whole loads to be rejected, as they were not recyclable. Some 10 million disposable nappies from Chichester went into landfill each year. A major public education job was required.

Previous county waste strategies had been developed around the delivery of the two major contracts, for handling recycling and for general waste disposal. It was now proposed that a combined strategy be developed to inform the high level direction of travel towards the 2020 target, and higher targets in the future. Time scales for producing this strategy were outlined in the report.

Work had started on assessing options to improve recycling performance, under the title of the Recycling Road map. Initially this involved reviewing the services provided by high performing local authorities. From this work a short list of options had been drawn up and would be fully investigated over the coming months. In tandem with this, he proposed that a Waste Panel be set up to consider the feedback from the Waste Partnership, but also to develop a specific recycling plan for Chichester District and to report back to the Cabinet with recommendations over the next few months.

Finally, the Waste Partnership had been updating the Memorandum of Understanding (MoU) (Appendix 1) between the West Sussex local authorities. This covered the relationship and governance of the partnership via an operational document rather than a formal contract. Over recent years the MoU had enabled the partnership to deliver some very positive outcomes. All partners collected the same materials to the same specification and delivered to 'state of the art' facilities for both recycling and general waste. The MoU had been reviewed and updated, and the new documents would be signed off shortly. One important section of the MoU concerned the way income was apportioned between the partners. A new formula had been agreed which would include a performance element to encourage improved recycling quantity and quality.

RESOLVED

(1) That the actions and proposals of the West Sussex Waste Partnership be noted.
(2) That the Head of Contract Services be authorised to approve the West Sussex Memorandum of Understanding and any future updates (provided the financial implications for the council do not exceed £100,000) following consultation with the Cabinet Member for the Environment and Head of Finance and Governance.
(3) That a Panel of Members, advised by Officers, be formed to advise the Cabinet on the development of a medium term waste management strategy for the Council, and that the following members be appointed to the Panel: Mr Barrow, Mr Connor, Mr Hobbs, Mrs Plant, Mr Shaxson and Mrs Tull.
(4) That the terms of reference attached (appendix 2) be approved.

124 Green Infrastructure Delivery Document

The Cabinet considered the report circulated with the agenda (copy attached to the official minutes).

In the absence of Mrs Taylor, Mr Dignum introduced the report, explaining that it arose from the statement in the adopted Local Plan that the Council intended to produce a supplementary planning document (SPD) dealing with green infrastructure. At the time this had been suggested, it had been intended that this document would largely deal with the strategic development locations.

However, there was now an outline planning permission for the Shopwyke site and concept statements had been prepared for West of Chichester, Westhampnett/Northeast Chichester and Tangmere (included within the Tangmere neighbourhood plan). These would all inform masterplanning and the provision of green infrastructure, and it was therefore no longer considered necessary to produce a full SPD dealing with these matters. As an alternative, a guidance note had been prepared which would help developers to incorporate green infrastructure into their proposals and which would also signpost where other green infrastructure initiatives were taking place.

Mr Finch supported this, and suggested that some neighbourhood plans already demonstrated good practice in translating the guidance into local arrangements. He, therefore, suggested that when the document was published on the Council's website, links to relevant neighbourhood plans should be incorporated.

With the permission of the Chairman, Mrs Hamilton drew attention to the alarming decline in the population of hedgehogs, with some reports suggesting they could become extinct within five years. She suggested that ecological mapping should identify the distribution of hedgehogs and that where proposed development sites had a hedgehog population various mitigation measures should be encouraged.

Mr Barrow agreed that this was an important issue and stated that the Council was committed to the protection of wildlife and their habitats. This was built in to its planning systems and was the basis for its published biodiversity action plan. Most hedgehogs lived in gardens and the Council undertook publicity to encourage composting and wildlife gardening. Further publicity specifically on ways of protecting hedgehogs could be added to this. Hedgerows were important habitats for hedgehogs and the Council actively supported hedge growing projects to try to ensure connectivity and used ecological mapping to inform planning systems. The Council also worked with a wide variety of statutory and voluntary organisations to protect hedgehogs, and made sure that its own parks and gardens estate was friendly to wildlife.

Mrs Stephanie Evans (Environmental Co-ordinator) described how the Council's work on wildlife protection generally helped the hedgehog population, as many species had overlapping needs. She described the use of ecological mapping and the way that compensatory planting was required where hedgerows had to be removed to provide access. She agreed that it was important for the Council to give more publicity to the threat to hedgehogs and how people could help.

RESOLVED

That the *Green Infrastructure Delivery Document* (appended to this report and including links to relevant Neighbourhood Plans) be published on Chichester District Council's website.

125 Authority's Monitoring Report 2015-2016

The Cabinet considered the report and appendix circulated with the agenda (copy attached to the official minutes).

In the absence of Mrs Taylor, Mr Dignum introduced the report. He explained that the Authority's Monitoring Report (AMR) was published annually by the Council, as required by the Localism Act. The AMR was the main mechanism for assessing the performance, implementation and effects of the Local Plan.

The draft AMR 2014-15 was appended to the report and some of the main highlights were set out in the covering report.

This AMR covered the period from 1 April 2014 to 31 March 2015. Significant events occurring since 31 March 2015 were also noted. The AMR presented:

- an update on progress on preparation of the Local Plan and other related documents; and
- an assessment of planning policy performance based on output indicators.

The AMR covered the Chichester Local Plan area only – it excluded the part of the District within the National Park. However, the data for two performance indicators in the 'Environment' section of the AMR (provided by the Sussex Biodiversity Record Centre) related to the whole of Chichester District (including the National Park). This was highlighted in the relevant AMR text.

RESOLVED

That the Authority's Monitoring Report 2014-2015 be published on Chichester District Council's website.

126 **Exclusion of the Press and Public**

The press and public were not excluded for any part of the meeting.

The meeting ended at 11.00 am

CHAIRMAN

Date:

Chichester District Council

CABINET **26 January 2016**

Leisure Services Management Contract

1. Contacts

Report Author:
Jane Hotchkiss, Head of Commercial Services
Tel: 01243 534790 E-mail: jhotchkiss@chichester.gov.uk

Gillian Keegan, Cabinet Member for Commercial Services,
Tel: 01798 344084 E-mail: gkeegan@chichester.gov.uk

2. Executive Summary

The report sets out the Leisure procurement process undertaken and the criteria used to assess the technical and commercial aspects of the tender returns. The process followed has confirmed that the savings identified in the option appraisal and the Council's Strategic objectives as indicated in paragraph 4.8 could be achieved. It is therefore recommended that Cabinet recommends to Full Council that the Management of the Leisure Centres and the Sports Development Services is outsourced. It further recommends that, in the event that Council approve the principle of outsourcing, Contractor B (see Part 2 report for Members only) is appointed.

3. Recommendations

3.1. **That Full Council be recommended that the management of the Leisure Centres and Sports Development Service is outsourced.**

3.2. **Subject to approval at Full Council to outsource the management of the Leisure Centres and Sports Development Service, that contractor B as indicated in the Part 2 report is approved as the preferred contractor**.

3.3. **Subject to approval of recommendations 3.1 and 3.2 Cabinet:**

(a) **Recommends to Council that the Head of Commercial Services be authorised, following consultation with the Cabinet Member for Commercial Services and Head of Finance & Governance Services, to conclude capital negotiations and agree the principle of funding the capital works as indicated in 4.2, 4.3 and 7.1-7.5 of the Part 2 report.**

(b) **Resolve that the Council self-insure instead of requesting a Performance Bond and Pension Bond from the contractor resulting in additional savings as identified in 7.6 and 7.7 of the Part 2 report, subject to the Head of Finance and Governance Services being satisfied in accordance with his delegation under the Constitution.**

4. Background

4.1 In April 2014, Cabinet resolved to conduct an Options Appraisal (OA) to analyse the various management options for the Council's leisure services. The key objective of the OA was to investigate, analyse and advise on the options open to the Council in relation to the future management and operation of its sport and leisure facilities.

4.2 In September 2014 the results of the OA were presented to Cabinet. The OA included a full operational review of the scope of services and identified areas for development to increase revenue. It considered the potential management options open to the Council and a suitable evaluation model to assess the options, given the Council's strategic and financial objectives. Each option was then evaluated against the current in house service delivery model.

4.3 The OA identified that significant revenue savings could be achieved by the Council if it were to consider the option of procuring an external trust/private sector partner. Should the Council procure an external trust/private sector partner, further savings on support costs could also be expected.

4.4 Council, at their meeting on 23 September 2014, approved the Cabinet's recommendation that a procurement exercise be undertaken to test the market for future management of leisure services. The Project Initiation Document (PID) was also approved.

4.5 Funding of £105k was also released to assist with the project including the appointment of specialist leisure consultants, legal and VAT advisors.

4.6 Following advice from the appointed leisure consultants a competitive dialogue process was followed to ensure that European and the Council's own procurement regulations were followed. A competitive dialogue process allows the Council to enter into dialogue with bidders to develop solutions to meet its needs and to gain a greater understanding of their proposals.

4.7 A Task and Finish Group (TFG) was established by the Cabinet Member for Community and Commercial Services to ultimately recommend a preferred tenderer to Cabinet. A representative from the TFG was also asked to provide the link back to the Overview and Scrutiny Committee (OSC). The aims and objectives of the TFG were to consider the:

- scope of the leisure management procurement exercise;
- procurement route to follow for the project;
- project timetable;
- tender returns for the Leisure Management Procurement

4.8 The outcomes for the project were that any management option must actively contribute to the Council's strategic objectives including increasing participation for adults and children, supporting initiatives to improve health and wellbeing and providing quality and affordable facilities across the district. In addition, the project must contribute towards the Council's deficit reduction programme, securing the future provision of quality leisure facilities and services for the benefit of the local community.

4.9 A Pre-Qualification Questionnaire (PQQ) to select bidders to participate in full dialogue was undertaken between October 2014 and February 2015. The PQQ was based on CDC's standard pre-qualification questionnaire including health and safety and financial assessments with additional leisure specific questions. The PQQ focussed on six key areas which the organisations had to provide detailed responses to. The areas to be evaluated were: Background Information; Financial / Insurance Information; Health and Safety; Environmental Management; Equal Opportunities and Further Information.

4.10 The Council received 11 PQQ's and following evaluation the five highest scoring parties were invited to submit detailed solutions (ISDS). The ISDS was split in to technical and commercial criteria.

4.11 The technical criteria (40% of the score) requested responses to the following 9 method statements, further details of which can be found in Appendix 1:

- capital investment proposals including repairs and maintenance schedules
- rural provision and outreach work with targeted communities
- partnership working and funding opportunities
- Wellbeing activities and exercise referral schemes
- Customer satisfaction
- Contract performance management and key performance indicators (KPI's)
- Use of digital technology to promote participation
- Energy Efficiencies
- Staffing structures and training

4.12 The commercial criteria (60% of the score) considered:

- Payment including benefit of capital investment and equipment replacement
- Viability of business plan
- Added value investment proposals
- Other legal and commercial proposals
- Profit/surplus share proposals

4.13 Of the five companies invited to tender, three returned an ISDS. Evaluation of the ISDS submissions resulted in two contractors progressing to the next stage of Invitation to Submit Final Tenders (ISFT).

4.14 There were a number of key issues discussed with each of the bidders. Two competitive dialogue meetings were held with both contractors. These meetings included representatives from the Council's Senior Leadership Team and Project Officers. The meetings were also attended by the Cabinet Member for Commercial Services and Chair of the TFG.

4.15 The Management Team and Bid Manager of each contractor delivered a formal presentation to the TFG, the Leader of the Council, the Council's Senior Leadership Team and Project Officers. The two companies were then invited to submit their ISFT. Both companies complied with the procedure and submitted valid returns to provide the management of the services for a ten year period with a provision to extend for a further five year period.

4.16 The process outlined in the approved PID was followed and has confirmed that the savings identified in the OA could be achieved should the Council decide to outsource the services. In addition the tenderers demonstrated that the Council's strategic objectives identified in paragraph 4.8 could be achieved.

5. Outcomes to be achieved

5.1. The outcomes set for the procurement process were that any management option must actively contribute to the Council's strategic objectives including increasing participation for adults and children, supporting initiatives to improve health and wellbeing and providing quality and affordable facilities across the district.

5.2. In addition, the project must contribute towards the Council's deficit reduction programme, securing the future provision of quality leisure facilities for the benefit of the local community.

5.3. Identify a long term sustainable solution for the future provision of Council leisure facilities by transferring risk and improving the revenue position of the service.

5.4. Reduce the cost of operating the Leisure centres and sports development service whilst continuing to offer high quality sport and leisure provision for the district.

6. Proposal

6.1 The results of the evaluation process were presented to the TFG in December 2015. In considering outsourcing, the TFG acknowledged the high performance and quality of the current service provision and the desire to continue this in future.

6.2 The TFG agreed that the proposals would contribute towards the Council's deficit reduction programme and help to secure the services for the benefit of the local community for at least a 10 year period. They also acknowledged the advantages of outsourcing as follows:

- A contractor can provide significant savings to the annual revenue costs of delivering the services. These are achieved mainly by the contractors having charitable status enabling them to make savings from Business Rates and VAT.

- Due to the size of the contractors they are able to achieve savings through economies of scale.
- In addition to a commitment to maintain and improve current services, including community services at the Grange, a contractor will achieve service improvements through the introduction of additional activities such as community outreach, health and wellbeing programmes, capital investment in the facilities and improved marketing and technology offers.
- Staff are protected under TUPE Regulations and, as they will be working for a larger leisure organisation, additional opportunities for staff progression and training may be available.

6.3 The TFG acknowledged that the Council would need to monitor the contract closely to ensure that all performance and financial targets are met. They also noted the potentially negative impact on funding of other Council services should the leisure and sports development services remain in house and be funded at current levels by CDC.

6.4 Therefore the TFG recommend that the Cabinet consider the outsourcing of the management of the leisure centres and the sports development service.

6.5 The Senior Leadership Team fully supports the proposal to outscorce the management of the Leisure Centres and Sports Development service as this meets all the outcomes indentified in Section 5 of this report.

6.6 In addition it is proposed that the TFG continue in a monitoring role, to meet initially at least quarterly. This will be reviewed 12 months after the contract has commenced and OSC may also choose to review performance after a period of operation.

7. Alternatives that have been considered

7.1 Other alternatives were considered as part of the OA considered by Cabinet and Full Council in September 2014.

8. Resource and legal implications

8.1. All staff will be transferred under TUPE regulations ensuring that current terms and conditions will be protected. The contract requires that existing members of the Local Government Pension Scheme will continue and the contractor needs to provide a comparable scheme for new employees.

8.2. The Council will be required to monitor the contract closely to ensure that all of the performance and financial targets are being met and that the service is being delivered in line with the specification, contract documents and method statements. Provision within the Council's budget (see the Part 2 report Appendices 3 & 4) has been made for a Contract Officer.

8.3. The contractor will be responsible for all IT and telephone requirements and have costed this in their financial submissions

8.4. The assets will remain with the District Council and any retained Council repair/improvement responsibilities have been costed into the Council's budgets as well as maintaining a capital asset replacement programme. This programme has been reduced to reflect the contractors responsibilities but provision has been given to any potential capital investment that may be required at the end of the contract.

8.5. The contract makes provision for the facilities to be made available for rest centres and elections usage.

8.6. The Westgate and Grange car park will remain the responsibility of the Council. The customer refund will continue to be offered to the customers of the Westgate Centre. The Bourne car parking arrangements will remain the same as set out in the lease with WSCC.

9. Consultation

9.1 The TFG established by the Cabinet holder for Community and Commercial Services has met seven times during the process and has attended presentations by the final two tenderers.

9.2 Three reports have been taken to the Joint Employee Consultative Panel to explain the project and the process regarding staff consultation and TUPE. A further report to JECP will be taken should the decision be made by Cabinet/Council to outsource the service.

9.3 A Staff Representative Group was established to assist with communication to the staff working in the leisure centres and sports development teams. Staff representatives came forward from all levels of staff both operational and management. Updates were provided to the staff representative group and the meetings gave an opportunity for staff to raise concerns either from themselves or their colleagues. All staff involved in the process have been written to twice to inform them of the process and to update them on progress.

9.4 Westgate Leisure Management Meetings were attended to provide regular updates to the management team as well as meetings being held with the Sports Development and Health Development Managers.

9.5 Letters were sent to all clubs and organisations that use the centres on a regular basis explaining the project and process and inviting for them to make contact should they require further information or to discuss any concerns they may have. In addition, letters were sent to all partner organisations including sponsors such as University of Chichester and Natures Way Foods.

9.6 A press release was sent to all local media outlets and all Councillors and Parish Councils to inform the local community. Midhurst Town Council raised a few concerns regarding The Grange Community and Leisure Centre and these were addressed at a meeting in December attended by the Cabinet Holder for Commercial Services and Project Officers.

9.7 A newsletter with Frequently Asked Questions was developed and placed on the Council's website. In addition, over 1000 copies were made available in the leisure centres, library and Council offices.

9.8 An oral update was given to OSC on 17 November 2015 followed by a report and oral feedback from the Chair of the Task and Finish, the Cabinet Holder of Commercial Services to OSC on the 19 January 2016.

10. Community impact and corporate risks

10.1 Operating and service risks - All of the operational risks associated with performance rest with the contractor including: health and safety; quality standards; public liability recruitment and management of staff and energy requirements. CDC will be responsible for auditing the contractor's Health and Safety compliance. Variations to the specification by the Council will remain a risk to the Council.

10.2 Maintenance - Any defects which are part of the capital investment by the contractor will remain the responsibility of the contractor. All non–structural planned and reactive repairs/ maintenance, plant, mechanical and electrical, fixtures and fittings, vandalism and pest control will be the responsibility of the contractor. Any structural repairs (not caused by the contractor) and subsidence will remain the responsibility of the Council. The Council will continue to set aside an annual contribution to the asset replacement fund, so in the event that there is a default on the part of the contractor, the Council will remain in a good position to take any remedial action if necessary. This will be reviewed on an annual basis.

10.3 Demand Risk – Changes in school/club usage, customer demand for activities and changes in volume of attendance will be the contractor's risk.

10.4 Equipment – The contractor is responsible for all equipment and stock plus any replacement equipment including fitness, sport, leisure, IT and office. Any upgrades required by the Council will remain the responsibility of the Council.

10.5 Financial Risks - The contractor will be required to continue to guarantee any performance if there is a change to the structure of the contractor. They would be responsible for all loss of income (excluding emergencies, force majeure, council step in without contractor breach, defects and any asbestos not identified in surveys). The risk of achieving income and profit levels identified in the bid will remain with the contractor. Surveys have been undertaken and there is no record of any asbestos at any of the sites. Condition surveys have also been undertaken at Westgate and Bourne which have been shared with the contractors.

10.6 Insurance – The contractor will be responsible for building contents, public liability and employment insurance. Any changes to costs will be the responsibility of the contractor. The Council will continue to insure the building.

10.7 VAT and NNDR – Any change in rate of VAT on any payments borne by the council shall be the risk of the council, and any change in VAT on costs borne by the contractor will remain with the contractor. Any changes to the scope of

VAT where Trust type structure is included will be a risk to the contractor. Any change to NNDR and changes in eligibility for the business rate relief is a risk allocated to the contractor.

10.8 Change in law – The risk associated with changes in law (qualifying ie specific to the leisure industry) which have a revenue impact will remain with the Council; changes in law (general ie change to all industries or services) which have an impact on revenue will be the responsibility of the contractor, including mandatory rate relief. With regard to capital expenditure changes in law (qualifying and general) will be a shared risk under the contract.

10.9 Inflation – The risk associated with an increase in inflation above that predicted in the contract will be a contractor risk**.** The contract states that prices shall increase as a maximum at the rate of inflation (CPI) for the contract period; any variation request to this will be addressed by a change protocol and agreed by the Council.

10.10 Contract and legal – The risk that the contractor makes incorrect assumptions due to inadequate diligence on unwarranted information and the loss or cost incurred by the council through default including the cost of running and re-providing service remains with the contractor.

10.11 Pensions and salaries – All pay increases including any living wage increases, redundancies, early retirement costs, discretions, augmentations or increasing a members period of membership and ill health retirements are the responsibility of the contractor. All costs associated with actuarial assumptions, mortality rates, inflation, regulatory change, discount rates and investment return remain the responsibility of the Council. The Council has sought advice from the actuary appointed by WSCC regarding the possible change in employee contribution rate, should the Council decide to outsource leisure provision. The advice received indicates that the outsourcing of the services would have no material impact on the pension scheme.

10.12 Contract Management – The risk that insufficient information is provided to adequately monitor the service delivery and that poor contract management procedure leads to delay in identifying and rectifying poor service levels is indicated as a risk to the contractor in the contract documents.

10.13 An equalities impact assessment has been undertaken and the outsourcing of the management of the leisure centres and sports development service should not result in any negative impact on the local community but should help to secure the Council's discretionary public sport and leisure provision for the future.

11 Other Implications

	Yes	No
Crime & Disorder:		X
Climate Change:		X
Human Rights and Equality Impact:		X
Safeguarding:		X

12 Appendices

12.1 Appendix one – Method statement questions

13 Background Papers

None

Method Statement	Question
1	The Council has identified some opportunities at Westgate Leisure Centre for capital investments that could be implemented to improve the net financial position of the Contract as well as to attract existing non-users and increase participation levels. The Council would like these development opportunities to be explored as part of the procurement, seeking an operator's input to develop these ideas further or to develop new ideas for capital investment which will contribute towards meeting the Council's objectives for the contract. Please provide initial details of projects/schemes along with high level cost of capital funding, timescales and return on investment over the period of the contract. How would funding for the projects/schemes be realised? Please provide your maintenance strategy and programme for the delivery of a sustained and improved service?
2	How will you support the delivery of the Council's Objectives within the centres and in the community both in the urban and rural areas of the district? In particular how will you support the inactive to become more active, how will you contribute to addressing health inequalities in the area and what is your approach to outreach work in particular in Targeted Think Family Communities to deliver these objectives?
3	How will you ensure that the work you do is coordinated and integrated with other local partners and stakeholders? What is your approach to being pro-active in gaining grants or funds through alternative avenues such as Sport England and other funding sources? Are there any grant proposals that the operator would seek to bring forward as part of the contract?
4	The Centres currently deliver a very successful Active for Health (Exercise referral) programme including back care, cancer, coronary heart disease, diabetes, asthma, ante and post natal, anxiety, stress and depression. The Centres also work closely with the Council's Health Development Team to deliver a 'First Steps to Fitness scheme' funded by Public Health. Funding for this is currently secured until April 2016 but it is envisaged this will be funded by Public Health moving forward but this is however not confirmed. Based on your experience what is your approach to delivering these types of services? What opportunities do you see for working in partnership with the Council to deliver these types of services? How would you make the activities sustainable in the light of reduced funding

Method Statement	Question
	from Public Health?
5	How would you measure whether your management of the centres meets and/or exceeds customer aspirations, in particular in relation to cleanliness, housekeeping standards and customer care? What quality awards, initiatives and strategies will you have in place throughout the contract?
6	What performance information will you provide to the Council to demonstrate your successful delivery of the Contract and how often? How will you measure the continuous improvement of service provision taking into consideration local and national agendas and delivery against the Council's objectives? What type of output, outcome and impact KPI's do you propose? How will your service in this Contract be benchmarked to demonstrate that the Council is getting excellent value for money whilst maintaining a high level of quality service and facilities?
7	The Council is keen to know how the use of IT, social media, on-line bookings, kiosks, website data analysis and Sport England Market Segmentation will be used to market regular users, in-frequent users and to engage new audiences and improve the intelligence the Contractor has of its customers. How will you make sure that these schemes complement and integrate with any campaigns/initiatives/events that the Council may be running?
8	The Council is committed to reduce the carbon footprint of the centres. Please outline any specific measures you would introduce at any of the centres to achieve these aims.
9	What is your approach to ensuring that there is always sufficient, suitably qualified and experienced staff at the centres? In addition what is your approach to employing local people, apprenticeship schemes, work experience and supporting the Council in addressing the worklessness agenda?

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Chichester District Council

CABINET **26 January 2016**

Treasury Management Strategy 2016-17

1. Contacts

Report Author:
Helen Belenger, Accountancy Services Manager
Tel: 01243 521045 E-mail: hbelenger@chichester.gov.uk

Cabinet Member:
Cllr Philippa Hardwick, Cabinet Member for Finance
Tel: 01428 642464 E-mail: phardwick@chichester.gov.uk

2. Recommendation

2.1. That Cabinet considers and recommends the following for approval by Council:

(a) The Treasury Management Policy and Treasury Management Strategy Statement for 2016-17 as contained in appendix 1 of the report.

(b) The Investment Strategy 2016-17 as detailed in the Treasury Management Strategy Statement (appendix 1).

(c) The Prudential Indicators and Limits for 2016-17 to 2020-2021 as detailed in appendix 2 of the report.

(d) The Minimum Revenue Provision (MRP) Statement contained within appendix 2, which sets out the Council's policy on MRP.

(e) That the 2015-16 Treasury Management Strategy and Investment Strategy is amended as set out in Appendix 5.

2.2. That Cabinet notes the investment performance for the second and third quarters of 2015-16 (appendices 3 and 4).

3. Background

3.1. Local authorities' treasury management activities are prescribed by statute i.e. the Local Government Act 2003, and the regulations issued under that Act. This is where the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice derives its legal status.

3.2. In March 2012 the Council adopted CIPFA's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year.

3.3. In addition, the Department for Communities and Local Government (DCLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

3.4. This report will fulfil the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG guidance, when considered by Council on 26 January 2016.

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

4. Outcomes to be achieved

4.1. The Treasury Management and Investment Strategies for 2016-17 are approved in accordance with the CIPFA's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code).

4.2. The Treasury Management and Investment Strategies for 2015-16 are amended to permit the use of the local authority property fund prior to 31 March 2016 and for the longer permitted time periods for investing with counterparties.

4.3. The performance in the current year for quarters 2 and 3 is noted.

5. Proposal

5.1. The Treasury Management Strategy, attached to this report, has been amended and updated for the forthcoming financial year with the suggested changes from the Council's treasury adviser. These changes have been tracked to aid members. Appendix 1 sets out the Council's treasury management policy, treasury management strategy and investment strategy for the forthcoming financial year.

5.2. The prudential indicators are shown in Appendix 2 to enable members to have an understanding of the implications of the Council's spending plans and their impact on the treasury management activities as set out in the strategy and investment policy. These indicators reflect the spending plans of the Council which are due to be considered by Full Council on 1 March 2016, for the council tax setting.

5.3. In managing the risks associated with the treasury management function, the Council considers the available uncommitted resources to cover any potential investment losses when setting the different investment limits. In the 2015-16 strategy the true available resources to cover any losses was at a level of £9.3m. And whilst these reserves are now considered to have increased to £14.6m, due to the £5m minimum level of reserves, the £1.3m held to give revenue budget support (if necessary) and the current uncommitted resources of £8.3.m, it is considered prudent that the counterparty investment limits remain unchanged to those operated during the current financial year, as detailed in table 4 of the 2016-17 strategy.

5.4. The main change being recommended is that the maximum period to the secure investment vehicles is increased as set out in table 4 of the strategy. This is to reflect that the estimated balances maintained within the 5 year financial strategy will remain at approximately £30m at the end of each financial year.

5.5. Another change recommended is the ability to use the local authority property fund as an approved counterparty up to a maximum investment limit of £10m.

5.6. Other changes in the strategy reflect the updated economic outlook, investment interest rate forecasts and taking into account the current assumptions on the Council's spending plans. The indicators declared in the treasury management strategy will be updated if necessary in the budget report to Cabinet in February 2016.

5.7. Estimated Interest rates

The financial strategy reflects the estimated rate of return for the current and future years:

Assumptions for 2016-17 Strategy

Assumed Interest Rates	2015/16 Revised	2016/17	2017/18	2018/19	2019/20	2020/21
Investment Rates	0.80%	0.75%	1.00%	1.15%	1.20%	1.25%

The view of the treasury advisor is that bank base rate will remain at 0.50% until the third quarter of 2016, rising by 0.50% a year thereafter, finally settling between 2% and 3% in several years' time. An average rate of return of 0.80% was built into the 2015-16 Treasury Management Strategy and the revenue budget. Whilst the current performance to date for 2015-16 indicates that an annualised rate of 0.65% is being achieved, the income generated is higher due to higher balances maintained throughout the year. Some new long term investments have been placed recently which were better than the short term rates available.

5.8. Investment Strategy

In considering the investment strategy, the CLG Investment Guidance requires the Council to the note the following three matters each year as part of the investment strategy:

(a) The use of Treasury Management Advisers: The Council currently have a contract with Arlingclose Limited.

(b) Investment Training: How the training needs of the officers involved on treasury management are identified and addressed, plus the provision of training for those members who scrutinise and approve the treasury management strategy. Member training was delivered by the Council's treasury adviser prior to approval of the forthcoming year's Treasury Management Strategy.

(c) Investment of money borrowed in advance of need: As the Council does not anticipate the need to borrow in the foreseeable future, it is therefore not expecting to borrow in advance of need, and so it is not necessary to set out any operational criteria for this situation in the Treasury Management Strategy for 2016-17.

5.9. The Treasury Management and Investment Strategies will be considered by Council on 26 January 2016.

6. Alternatives that have been considered

6.1. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. In adhering to the CIPFA Code, the forthcoming financial year's Treasury Management Strategy Statement and Investment Strategy are required to be considered by those members charged with governance, before being referred to Full Council for approval.

6.2. The Corporate Governance and Audit Committee were requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness, when it considered the Treasury Management Strategy Statement and Investment Strategy for 2016-17 at its meeting on 24 November 2015. The Committee supported the changes as detailed in the appendix 1.

6.3. The impact of alternatives strategies, with their financial and risk management implications are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

7. Investment Performance Quarters 2 & 3 (Appendices 2 & 3)

7.1. The revised Treasury Management Strategy for 2015-16 was approved by full Council on 10 March 2015.

7.2. The investment returns achieved in the second and third quarters of the year were:

Investment Interest – 2015-16	Interest Achieved £	Annualised Average Rate %
Quarter 2 – July – September	100,104	0.61
Quarter 3 – October – December	114,569	0.72

7.3. The returns achieved exceed the internally set investment performance indicators of the Local Authority 7 Day Deposit index, the 3 Month London Inter-Bank Offer Rate (LIBOR) and 3 Month London Inter- Bank Bid Rate (LIBID).

7.4. The annualised investment performance, including the Council’s property investments, was 1.13% and 1.26% for quarter 2 and 3 respectively.

7.5. The original budget anticipated investment interest would amount to £264,300 at a rate of 0.80%. Whilst the average rate of interest achieved during the year is lower than this target, the amount of investment interest for year is expected to be higher due to the higher balances to invest during the year, and so it is now anticipated that the investment interest received will now amount to £325,600 in 2015-16.

7.6. Outlook for Q4 2015-16

The global economy is facing a period of slower growth, as China reorients slowly towards domestic demand. The lower demand for raw materials will depress growth in mainly developing countries. However countries with stronger domestic demand such as the UK and US may be able to weather a temporary global slowdown helped by lower commodity prices. Inflation is expected to remain low over the next 12 months and domestic demand is key for UK growth.

7.7. On the back of strong consumption, business investment has strengthened, which should drive some productivity growth. However, the outlook for business investment may be tempered by the looming EU referendum and increasing uncertainties surrounding global growth and recent financial market results.

7.8. The Council’s adviser, Arlingclose, projects a slow rise in Bank Rate from September 2016. The pace of interest rate rises will be gradual and the extent of rises limited with the normalised level of Bank Rate post-crisis likely to range between 2% and 3%. Market expectations are now also for increases in interest rates in the latter half of the year and muted increases in gilt yields in the medium term, with short term volatility due to uncertainties surrounding UK and US monetary policy and global growth weakness.

7.9. Amendments to the 2015-16 Treasury Management Strategy

Appendix 5 sets out the changes to be incorporated into the current year’s approved treasury management strategy to enable officers to seek to use the local authority property fund as an approved counterparty prior to 1 April 2016, and the changes to table 4 to reflect the maximum period for investments to approved counterparties.

7.10. The effect of these amendments to the various approved limits within the approved 2015-16 Treasury Management Strategy is also set out in appendix 5.

8. Resource and legal implications

8.1. The estimated rate of return for the forthcoming financial year and future financial years has been taken into account in the 5 year model under pinning the Council’s Financial Strategy and resources statement.

9. Consultation

9.1. The Corporate Governance and Audit Committee considered the Treasury Management Strategy Statement and Investment Strategy at its meeting on 24

November 2016. The Committee supported the changes proposed in relation to the use of the property fund, and extending the time limits for investments taking into account the credit ratings of the counterparties as set out in table 4 of appendix 1.

10. Community impact and corporate risks

10.1. The statutory and regulatory framework under which the treasury management function operates is very stringent, and each authority has to decide its own appetite for risk and the rate of return it could achieve.

10.2. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 6.

11. Other Implications

	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding and Early Help:		✓
Other (Please specify): Non-compliance or loss of an investment due to default by a counterparty could affect the financial wellbeing of the council dependent on the size of the loss and the ability to fund losses from its unallocated reserves.	✓	

12. Appendices

12.1. Appendix 1- Treasury Management Policy Statement, Treasury Management Strategy Statement, and Annual Investment Strategy for 2016-17

12.2. Appendix 2 – Prudential Indicators and MRP Statement 2016-17
12.3. Appendix 3 – Treasury Management Activities 2nd Quarter 2015-16
12.4. Appendix 4 – Treasury Management Activities 3rd Quarter 2015-16
12.5. Appendix 5 – Changes to the 2015-16 Treasury Management Strategy
12.6. Appendix 6 – Treasury Management Practices (TMP's) Extract of TMP 1 – Risk Management

13. Background Papers

13.1. None.

Appendix 1

Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2016-17

1. Treasury Management Policy Statement

Chichester District Council defines its treasury management activities as:

- The management of the organisation's financial 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 Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

- The investment policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and the DCLG guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the Council's spending plans is an important, but secondary objective.

- The Council's borrowing objective, being debt free and with relatively substantial resources still available for its capital investment spending plans, means that it does not intend to borrow any monies, except for short term cash flow purposes for revenue and capital commitments.

2. Treasury Management Strategy Statement

The Treasury Management Strategy details the expected activities of the treasury function in the forthcoming year 2016-17. The publication of the strategy is a statutory requirement.

3. The Treasury Management Strategy Statement including the Annual Investment Strategy are underpinned by the CIPFA Code of Practice and Treasury Management Practices (TMPs) which provide prescriptive information as to how the treasury management function should be carried out.

4. Risk Appetite Statement

As a debt free authority with substantial balances to invest the Council's highest priority in its treasury management function is the security of those investments in accordance with the priorities set out in the CIPFA Code. The investment returns are generally used to fund one-off expenditure or capital investment.~~ and not to balance the revenue budget~~. Sums are invested with a diversified range of counter parties using a wide range of instruments consistent with avoiding the risk of the capital sum being diminished through movements in prices.

~~This means that~~ Tthe Council whilst fundamentally risk adverse, will accept some modest degree of risk. It will consider first the range of risks as set out specifically in the Treasury Management Practices (TMP 1), and secondly how prudently to manage those different risks. It will ensure that priority is given to security and liquidity when investing funds before seeking to optimise yield. The use of different investment instruments and diversification of high credit quality counter parties along with country, sector and group limits, as set out in the Strategy, enables the Council to control the nature and extent of the different risks. One risk not set out in TMP1 which also needs to be considered when placing longer term investments is the political risk, such as in relation to a possible change of Government, any EU referendum, and their effect on the treasury management function.

~~In particular~~ Wwhen investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including certain unrated building societies and money market funds. The Council may also invest surplus funds through tradable instruments such as gilts, treasury bills, certificates of deposit and corporate bonds. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity, thus avoiding the risk of the capital sum being diminished through movements in prices.

External Context

5. Economic background

~~There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is currently extremely benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.~~

~~The focus of the Monetary Policy Committee (MPC) of the Bank of England is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the MPC Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings between August and December 2014, the minutes of the January 2015 meeting showed unanimity in maintaining the Bank Rate at 0.50% as there was sufficient risk that low inflation could become entrenched and the MPC Committee have become more concerned about the economic outlook.~~

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth nationally is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

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

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. In December 2015 the Federal Reserve raised its key interest rate by 25 basis points to between 0.25% and 0.50%, a move which was widely expected by the markets. Any future increases are expected to be gradual because their concerns about the global economy and low inflation. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

6. **Credit outlook**

~~The transposition of two European Union directives into UK legislation in January 215 and by July 2015, will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.~~

~~The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council.~~

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

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

7. **Prospects for Interest Rates**

~~The Council's treasury management adviser Arlingclose, forecasts the first rise in official interest rates around the third quarter of 2015 with a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 2.70%.~~

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

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

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.75% for 2016-17.

8. The table below shows the November 2015 HM Treasury Survey Medium Term forecasts for the average annual Official Bank Rate.

Table 1: HM Treasury Survey Medium Term Forecasts for Average Annual Official Bank Rate

		Average Annual Official Bank Rate %			
	2015	**2016**	**2017**	**2018**	**2019**
Highest	0.60	1.20	1.80	2.50	3.10
Average	0.50	0.80	1.40	2.10	2.50
Lowest	0.40	0.60	1.20	1.40	1.60

Source: HM Treasury Forecasts for the UK economy: November 2015.

For the purpose of setting the budget, it has been assumed that new investments will be made yielding an average rate of 0.75% for 2016-17.

9. **Current Portfolio Position**

The Council's treasury portfolio position as at 8 January 2016 comprised:

Table 2: Current Investment Portfolio Position.

Investments	**Actual Portfolio £m**	**Annualised Average Rate %**
Call Accounts	12.865	0.41
Short Term investments	34.000	0.50
Medium Term Investments	12.000	1.52
Long Term Investments	3.000	1.85
Total Investments	**61.865**	**0.60**

Forecast changes in these sums are shown in the balance sheet analysis in table 3 below.

Definitions of investment periods are:

(i) Short Term - up to one year (excluding call accounts with immediate access to funds)
(ii) Medium Term - One to four years
(iii) Long Term – Over four years

Table 3: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m	31.3.21 Estimate £m
General Fund CFR	-1.440	-1.316	-1.341	-1.367	-1.396	-1.427	-1.440
Less: Other Debt Liabilities	-0.124	0.025	0.026	0.029	0.031	0.013	0.0
Borrowing CFR	**-1.316**	**-1.341**	**-1.367**	**-1.396**	**-1.427**	**-1.440**	**-1.440**
Internal borrowing	0	0	0	0	0	0	0
Usable reserves	-34.700	-31.995	-33.822	-29.947	-29.565	-28.737	-28.415
Working capital	-4.685	-2.679	-2.505	-2.779	-2.803	-2.879	-2.933
Investments	**40.700**	**36.015**	**37.694**	**34.122**	**33.795**	**33.056**	**32.788**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Council is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £ 32.788m as capital receipts and other revenue resources are used to finance capital expenditure, and reserves are used to finance specific projects and one off revenue expenditure.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 3 shows that the Council expects to comply with this recommendation during 2016-17 as it maintains its debt free status.

10. Borrowing Strategy

As part of the Council's Financial Strategy the Resources and Capital Principles are stated as:

"Borrowing could be used for "invest to save" projects providing the cost of servicing the debt is contained within the revenue savings/income the project generates. The payback period for invest to save projects should be shorter than the life of the asset.

(a) ~~At present, t~~There are no plans to borrow to finance new capital expenditure in the current 5 year plan but this remains an option if deemed to be prudent. Short term internal borrowing (for schemes that pay back within the 5 year time frame of the capital programme) can be accommodated without incurring external interest charges, provided the resulting savings are recycled into reserves. Longer term pay back periods will have to accommodate both the external interest and a minimum revenue provision (MRP) in accordance with the Council's MRP policy, which links repayment of the debt to the life of the asset.

(b) Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, namely the further efficiency savings generated by the investment in the assets."

11. **Borrowing Objectives:**

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

12. **Borrowing Strategy**

The Council may need to borrow money in the short term to cover unexpected cash flow shortages, (normally up to one month) within the approved operational boundary limit of £5m.

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

- Public Works Loans Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the West Sussex Pension Fund)

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

- Operating and finance leases
- Hire purchase
- Private Finance Initiatives
- Sale and leaseback

13. **Investment Strategy**

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's financial investment balance has ranged between £37.5 and £60.95 million, but this is expected to reduce to lower levels in the forthcoming year due to the anticipated capital spending programme including any property investment commitments.

14. **Objectives**: The Council has a duty to safeguard the public funds and assets it holds on behalf of its community. Both the CIPFA Code, and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

15. **Strategy**: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2016-17. This is especially the case for the estimated £20 ~~15~~m that is available for longer-term investments. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, and other local authorities. The new investment options that may be undertaken by this strategy would now include covered bonds, Government Agency Bonds, Supranational Bonds and Corporate Bonds. This diversification will ~~therefore~~ represent a continuation of the new strategy adopted in 2015-16 ~~material change in strategy over the coming year~~, in order to manage the bail-in risk and spread the investment of surplus funds in a wider range of investment types.

16. The Council may invest its surplus funds with any of the counterparties in table 4 below, subject to the cash limits (per counterparty) and time limits shown.

Table 4: Approved Investment Counterparties

Sector Limits/ Credit Rating	Banks Unsecured[1] £20m	Banks Secured[1] Unlimited	Government Unlimited	Corporates £10m
UK Govt	n/a	n/a	£ Unlimited 15 ~~5~~ years	n/a
AAA	£2.5m 5 years	£5m 10 ~~5~~ years	£5m 10 ~~5~~ years	£2.5m 10 ~~5~~ years
AA+	£2.5m 5 years	£5m 7 ~~5~~ years	£5m 7 ~~5~~ years	£2.5m 7 ~~5~~ years
AA	£2.5m 4 years	£5m 5 ~~4~~years	£5m 5 ~~4~~ years	£2.5m 5 ~~4~~ years
AA-	£2.5m 3 years	£5m 4 ~~3~~ years	£5m 4 ~~3~~ years	£2.5m 4 ~~3~~ years
A+	£2.5m 2 years	£5m 3 ~~2~~ years	£2.5m 3 ~~2~~ years	£2.5m 3 ~~2~~ years
A	£2.5m 13 months	£5m 2 years ~~13 months~~	£2.5m 2 years ~~13 months~~	£2.5m 2 years ~~13 months~~
A-	£2.5m 6 months	£5m 13 months	£2.5m 13 months	£2.5m 13 months
BBB+	£1m 100 days	£2.5m 6 months	n/a	£1m 6 months
BBB ~~or BBB-~~	£1m next day only	£2.5m 100 days	n/a	n/a
None	£1m 6 ~~3~~ months	n/a	~~N/A~~ £5m 10 years	£2m 5 or 10 years ~~n/a~~
~~Money Market Funds~~ Pooled Funds	£5m per money market fund and a maximum £10m in the Property Fund			

This table must be read in conjunction with the detailed notes below and limits stated in Table 6.

[1] Note: The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

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

18. **Current Account Bank**: Following a competitive tender exercise held in 2008, the Council's current accounts are held with HSBC plc which is currently rated above the minimum rating in table 4.

19. **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of capital loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

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

21. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to the bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts up to 15 ~~5~~ years.

22. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks. These investments are not subject to bail-in, but are exposed to the risk of the company becoming insolvent.

23. ~~**Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts. .~~

23. **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee which can range between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Short-term Money Market Funds that offer same-day liquidity and very low volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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

25. **Risk Assessment and Credit Ratings**: The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury advisor, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

    If in the case of a decision to recall or sell an investment at a cost which is over the approved virement limits, the Council's urgent action procedure in its Constitution would be invoked by officers.

26. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn in a timely manner will be made with

that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating. Any counterparty downgrades must be included in the monthly monitoring reports sent to the members of the Corporate Governance & Audit Committee.

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

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

29. **Specified Investments**: The CLG Guidance defines specified investments as those:

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

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

30. **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to medium and long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 5 below.

Table 5: Non-Specified Investment Limits

	Cash limit
Total medium and long-term investments	£20 ~~15~~m
Total investments without credit ratings or rated below A- ~~BBB-~~	£10m
Total Limit on non-specified investments	£30 ~~25~~m

31. Use of Specified and Non-Specified Investments

The selection of specified and non-specified investments will be undertaken by the Head of Finance and Governance Services who will keep the making of such investments under continuous review in the light of risk, liquidity and return and the framework set out in this Strategy. ~~A schedule will be included in the Council's TMP's for staff and circulated to members as a background paper to the strategy and when/if it is updated during the year~~.

Investment Limits: The Authority's uncommitted revenue reserves available to cover investment losses are forecast to be £19.5m ~~18.4~~ million on 31st March 2016. These uncommitted reserves include the following items; General Fund Balance £5m, Revenue Support £1.3m, New Homes Bonus £4.9m ~~4.7~~m and currently £8.3m ~~7.4~~m uncommitted resources as stated in the current estimated Resources Statement. ~~reported to Cabinet in February 2015.~~ In order that no more than 25% ~~27%~~ of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors as set out in Table 6. ~~below:~~ Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 6: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker with Max of £5m in covered bonds
Foreign countries	£5m per country
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£10m in total

32. Liquidity management: The Council uses spread sheets for cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on medium and long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

33. Treasury Management Indicators

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

a. Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

Table 7: Portfolio Average Credit Rating	Target
Portfolio average credit rating	A+

b. **Liquidity:** The method for cash flow forecasting is set out in paragraph 31.

The Council seeks to maintain its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and minimising the use of its overdraft facility of £350,000.

The liquidity measure is to have a minimum of £10m available within 3 months.

c. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. Under the TM Code the upper limits on fixed and variable rate interest rate exposures, should be expressed as the amount or proportion of net principal borrowed or interest payable, with investments counting as negative borrowing. As the Council is debt free and to provide a meaningful indicator the limits on fixed and variable rate interest rate exposures are expressed as an amount and percentage of net principal of investments: Strictly this is contrary to the TM Code definition.

Table 8: Upper Limits on Interest Rate Exposures

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure of net investment principal	£28m ~~£24m~~ /40%	£24m ~~£22m~~ /40%	£22m ~~£20m~~ /40%
Upper limit on variable interest rate exposure of net investment principal	£70m ~~£60m~~ /100%	£60 m ~~£55m~~ /100%	£55m ~~£50m~~ /100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months ~~the whole financial year~~, measured from the start of the financial year or the transaction date if later. Instruments that mature during the financial year are classed as variable rate.

~~Performance measure of a time weighted average v interest rate risk exposure, such that the investment portfolio should be in the range of below 5 credit risk score.~~

d. **Maturity Profile of Borrowing**

As the Council is debt free it currently holds no fixed long term borrowing for which a maturity profile exists.

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

Table 9: Principal Sums Invested for Periods Longer than 364 days

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£20m ~~£15 m~~	£15m ~~£9m~~	£10m ~~£6m~~

Table 9 sets out the upper limit for each forward financial year period for the maturing of investments for periods longer than 364 days up to their final maturities beyond the end of the financial period. The limit for 2016-17 equals the total medium and long term investment limit stated in table 5. The next two financial year limits are smaller, effectively limiting the investments that can be made for longer than 2 years and 3 years. In essence this reflects a maturity pattern of the medium and long term debt, in that £5m should mature in 2016-17, and another £5m in 2017-18. The remaining balance would mature beyond 2018-19, up to maximum period of investments allowed as set out in table 4, ~~but no longer than 2019/20.~~

34. **Other Items**

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

35. **Policy on Use of Financial Derivatives:**

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

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the 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. Embedded derivatives, including those present in pooled funds and forward starting transactions will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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

The use of any derivative will be explicitly explained to the Corporate Governance & Audit Committee in relation to the risk being managed, except in relation to forward deals, as these are undertaken as part of cash flow management.

36. **Investment Training:**

Member and officer training is an essential requirement in terms of understanding roles, responsibilities and keeping up to date with changes and in order to comply with the CIPFA Treasury Management Code of Practice.

The training needs of the officers involved on treasury management are identified through the annual performance and development appraisal process, and additionally when the responsibilities of individual members of staff change. Staff attend relevant training courses, seminars and conferences.

To address the training need of members, training will be provided to members of both Cabinet and the Corporate Governance and Audit Committee in advance of them considering the forthcoming year's strategies. The training was provided by the Council's treasury adviser in October 2015.

37. **Treasury Management Advisers:** The Council currently contracts with Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. However, responsibility for final decision making remains with the Council and its officers.

The quality of this service is controlled and monitored against the contract by the Accountancy Services Manager, which is in place until the 30th June 2018.

38. Reporting Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities and on the performance of the treasury management function.

The Council/Cabinet will receive as a minimum:

- An annual report on the strategy and plan to be pursued in the coming year and on the need to review the requirements for changes to be made to the Treasury Management Strategy Statement.
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, such reports to be submitted by 30th September in the succeeding financial year, including any circumstances of non compliance with the organisation's treasury management policy statement and Treasury Management Practices.

The body responsible for scrutiny, Corporate Governance and Audit Committee has responsibility for the scrutiny of treasury management policies and practices.

The Cabinet member for Finance and Governance, and the members of the Corporate Governance & Audit Committee receive monthly monitoring reports of the investments held. The monthly reports should include any negative outlook for investment vehicles used by the Council and appropriate benchmarking.

The Council reports their treasury management indicators as detailed in the sector specific guidance notes; which are set out in an appendix to the Treasury Management Strategy Statement for the Prudential Indicators and Treasury Management Indicators of this report for the forthcoming year, and reported for the out turn in the June after the year end.
39.

39. **Investment of Money Borrowed in Advance of Need**: As the Council does not anticipate the need to borrow in the foreseeable future, except in the short-term for cash flow purposes only, it is therefore not expecting to borrow in advance of need, and so does not need to set out any operational criteria for this situation in the 2016-17 Strategy.

40. Financial Implications

The budget for investment income in 2016-17 is £0.270million, based on an average investment portfolio of £36.015million at an interest rate of 0.75%. If actual levels of investments and actual interest rates differ from those forecast, performance against budget will be correspondingly different and may impact the intended use of investment income as set out in the Council's Financial Strategy.

Prudential Indicators and MRP Statement 2016-17

1. Prudential Indicators 2016-17

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow, if necessary. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

(a) Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail will be provided in the Council's Budget Spending Plans to be reported to Cabinet on the 9 February 2016, and to be considered by Council on 1 March 2016.

Capital Expenditure and Financing	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Expenditure	**11.287**	**11.338**	**7.909**	**4.379**	**1.832**	**1.591**	**1.283**
Financed By:							
Capital Receipts	6.043	3.246	6.290	2.822	0.725	0.053	0.053
Government Grants	0.781	0.995	0.528	0.528	0.528	0.528	0.528
Other contributions	0.631	0.752	0.035	0.003	-	-	-
Reserves	3.307	5.870	0.619	0.470	0.161	0.802	0.702
Revenue	0.525	0.475	0.437	0.556	0.418	0.208	-
Total Financing	**11.287**	**11.338**	**7.909**	**4.379**	**1.832**	**1.591**	**1.283**

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

Capital Financing Requirement	31.03.15 Actual £m	31.03.16 Revised £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
CFR	**-1.32**	**-1.34**	**-1.37**	**-1.40**	**-1.43**	**-1.44**	**-1.44**

The CFR is not expected to change significantly over the next five years as capital expenditure is anticipated to be financed by the Council's available capital and revenue resources. The movement in CFR above reflects the impact of MRP set aside in respect of a finance lease for Multi-function devices acquired in 2014/15.

In principle the CFR should equal zero, as the Council has fully funded its capital investment programme since becoming debt free following its Large Scale Voluntary Transfer (LSVT) of its housing stock in 2001, however a negative balance post LSVT is relatively common. To bring the CFR back to a more meaningful figure i.e. zero, there is the option to leave part of capital expenditure unfinanced or effectively financed from internal borrowing which will increase the CFR to zero.

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

Debt	31.03.16 Revised £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Borrowing (Operational Boundary only)	5	**5**	5	5	5	5
Finance leases	0	**0**	0	0	0	0
Total Debt	**5**	**5**	**5**	**5**	**5**	**5**

Total debt is actually expected to remain at zero, as the no borrowing is anticipated except if required under the operational boundary limit, and is the reason for this being higher than the CFR during the forecast period.

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

Operational Boundary	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	5	**5**	5	5	5	5
Other long-term liabilities	0	**0**	0	0	0	0
Total Debt	**5**	**5**	**5**	**5**	**5**	**5**

(e) Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	10	**10**	10	10	10	10
Other long-term liabilities	0	**0**	0	0	0	0
Total Debt	**10**	**10**	**10**	**10**	**10**	**10**

(f) Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2015/16 Revised %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**
General Fund	-2.55	-2.16	-3.22	-3.37	-3.70	-4.00

The estimates of financing costs reflect the Budget Spending Plans for 2016-17 to be reported to Cabinet on 9 February 2016 and considered by Council on 1 March 2016. These indicators have been updated to reflect the current phasing of the capital programme and the effect on the cash flow forecasts for investments.

The fact that the percentages remain negative shows that the investment interest remains an income source to the Comprehensive Income and Expenditure Account. To date investment interest has been used to fund one off projects/capital spending rather than balance the revenue budget.

(g) Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed to Cabinet and Council as part of the Council's spending plans.

Incremental Impact of Capital Investment Decisions	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**
General Fund - increase in annual band D Council Tax	-6.32	-2.60	-3.09	-3.06	-3.03	-3.00

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

Annual Minimum Revenue Provision Statement 2016-17

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

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

> Whilst the Council's General Fund Capital Financing Requirement is expected to remain negative on 31st March 2016, so if the CLG Guidance is adhered to there should be no MRP charge in 2016-17. However, as identified whilst preparing the 2014-15 statutory accounts a finance lease for the Multi-functional devices was identified which adjusted the negative CFR position, and as such an MRP charge of £26,000 will be required in 2016-17 in accordance with the Council's MRP policy.

The Council's MRP policy for all borrowing after 31st March 2008 is based on the asset life method.

> *For new borrowing whether supported by the Government or not, MRP provision will be made over the estimated life of the asset for which the borrowing is undertaken. This will be done on a straight line basis in-line with the asset life determined for depreciation purposes and the MRP provision will commence in the financial year following the one in which the asset becomes operational.*

MRP is payable in the financial year following that in which the capital expenditure was incurred. The guidance allows for an important exception to this rule. In the case of expenditure on a new asset, MRP would not have to be charged until the financial year following the year in which the asset became operational. In respect of major schemes, this would enable an "MRP Holiday" delaying the on-set of the revenue charge for possibly up to 2 or 3 years.

Based on the Council's estimate of its Capital Financing Requirement on 31st March 2016, the budget for MRP has been set is set at £26,000 for 2016-17 due to the MRP required for the MFD finance lease.

TREASURY MANAGEMENT ACTIVITIES
2nd QUARTER 2015 - 2016

1. Investment Performance

1.1.1 The current performance and the rate of return being achieved continue to reflect the low interest rates available, especially when dealing with other local authorities.

1.1.2 The Base rate remained at 0.50%

1.1.3 To maximise income from investments, the treasury management policy aims to maintain combined daily current bank balances below £150,000. This limit was exceeded on the following days as additional income was received after daily cash flow and investment decisions had been taken:

Date	Bank Balance	Note
3 Jun	£164,039	1
5-7 Jun	£184,800	1
8 Jun	£286,884	1
15 Jun	£324,983	1
16 Jun	£283,093	1
30 Jun	£208,570	1
15 Jul	£265,792	1
19 Aug	£209,607	1
28 -31 Aug	£163,271	1
1 Sep	£905,501 o/drawn	2
15 Sep	£338,810	1

Notes

1 Includes unexpected council tax & NDR receipts obtained after close of treasury management dealing.

2. The balance reported above is the cleared available balance at end of day. The actual ledger balance was £200,000 in credit, the difference reflecting uncleared items progressing through the clearing system. No bank charges were incurred.

1.2 Investment Performance – Portfolio Position

Quarter Ended 30.09.15.

Investments	Average Portfolio £m	Annualised Average Rate %
Call Accounts	16.30	0.21
Short Term Investments	31.12	0.47
Medium Term Investments	12.0	1.51
Long Term Investments	3.00	1.85
Sub Total Treasury Investments	**62.42**	**0.61**
Property Investments	3.90	9.09
Total Investments	**66.32**	**1.13**

Market Indicators		**Annualised Average Rate %**
Local Authority 7 Day Deposit Index		0.51%
3 Month LIBOR		0.60%
3 Month LIBID		0.63%

Cumulative investment income for the year to 30 September 2015 is £360,434, comprising £182,461 for treasury transactions investments, and £177,973 for property investments. The return of 0.61% for treasury transactions is below the budgeted target of 0.80% but broadly equivalent to 3 month LIBOR and reflects market conditions.

1.3 Borrowing & Debt Repayment Activities

- Borrowing - None

1.4 Additional Performance Measures

- Investment Guidelines were adhered to.
- Daily cash flows were calculated, and forecasts of large payments were maintained.
- The External Debt Borrowing Limits for the Authorised Limit and the Operational Boundary were not exceeded.
- Weekly reports on investments were produced.
- The average credit rating for the quarter was AA-, which is above the A+ target contained in the treasury management strategy.

TREASURY MANAGEMENT ACTIVITIES
3rd QUARTER 2015 - 2016

1.1 Investment Performance

1.1.1 The current performance and the rate of return being achieved continue to reflect the low interest rates available in the market, especially for short term investments.

1.1.2 The Base rate remained at 0.50%

1.1.3 To maximise income from investments, the treasury management policy aims to maintain combined daily current bank balances below £150,000. This limit was exceeded on the following days due to additional income being received after the daily cash flow and investment decisions had been taken:

Date	Bank Balance	Note
13 Oct	£310,596	1
15 Oct	£221,125	2
3 Nov	£346,071	3
16 Nov	£323,707	2
27-29 Nov	£1,942,686	4
15 Dec	£249,676	2
24-31 Dec	£163,343 - £811,376	5

Notes

1 Includes unexpected income of £176,800 from West Sussex County Council
2. Includes unexpected council tax & NDR receipts obtained after close of treasury management dealing.
3. The balance included an expected overage payment of £250,000. The timing of this receipt was uncertain and it was received too late in the day to invest.
4. The balance included a deposit of £1.84m intended for placement in Ignis Money Market Funds but due to an administrative oversight funds were not sent.
5. Funds accumulated over festive season during Council Office closure.

1.2 Investment Performance – Portfolio Position

Quarter Ended 31.12.15.

Investments	**Average Portfolio £m**	**Annualised Average Rate %**
Call Accounts	9.87	0.45
Short Term Investments	32.33	0.50
Medium Term Investments	12.00	1.53
Long Term Investments	3.00	1.85
Sub Total Treasury Investments	**57.20**	**0.72**
Property Investments	3.90	9.09
Total Investments	**61.10**	**1.26**

Market Indicators		Annualised Average Rate %
Local Authority 7 Day Deposit Index		0.49%
3 Month LIBOR		0.58%
3 Month LIBID		0.45%

Cumulative investment income in the year to 31 December 2015 was £563,521, comprising £297,030 for treasury Management investments, and £266,491 for property investment.
The return of 0.65% for treasury transactions is below the budget target of 0.80%, reflecting continued market conditions. The total estimated investment interest reflected in the approved 2015-16 revenue budget is £264,300. So whilst the rate of return being achieved is lower, the amount being generated is higher due to the higher level of balances available to invest being greater than forecast.

1.3 Borrowing & Debt Repayment Activities

- Borrowing - None

1.4 Additional Performance Measures

- Investment Guidelines were adhered to.
- Daily cash flows were calculated, and forecasts of large payments were maintained.
- The External Debt Borrowing Limits for the Authorised Limit and the Operational Boundary were not exceeded.
- Weekly reports on investments were produced.
- The average credit rating for the quarter was AA-, which is above the A+ target contained in the treasury management strategy.
- The limit of £20m for unsecured investments was exceeded in the period 4 to 24 December, and by a maximum of £1.46m on 15 December, due to temporary cash flow variations and the absence of opportunities to place funds elsewhere. Funds exceeding this limit were retained in the Council's own HSBC Bank Deposit account overnight.

Amendments to 2015-16 Treasury Management Strategy Statement

Paragraph 14.

The Council may invest its surplus funds with any of the counterparties in table 4 below, subject to the cash limits (per counterparty) and time limits shown.

Sector Limits/ Credit Rating	**Banks Unsecured[1] £20m**	**Banks Secured[1] Unlimited**	**Government Unlimited**	**Corporates £10m**
UK Govt	n/a	n/a	£ Unlimited 15 ~~5~~ years	n/a
AAA	£2.5m 5 years	£5m 10 ~~5~~ years	£5m 10 ~~5~~ years	£2.5m 10 ~~5~~ years
AA+	£2.5m 5 years	£5m 7 ~~5~~ years	£5m 7 ~~5~~ years	£2.5m 7 ~~5~~ years
AA	£2.5m 4 years	£5m 5 ~~4~~years	£5m 5 ~~4~~ years	£2.5m 5 ~~4~~ years
AA-	£2.5m 3 years	£5m 4 ~~3~~ years	£5m 4 ~~3~~ years	£2.5m 4 ~~3~~ years
A+	£2.5m 2 years	£5m 3 ~~2~~ years	£2.5m 3 ~~2~~ years	£2.5m 3 ~~2~~ years
A	£2.5m 13 months	£5m 2 years ~~13 months~~	£2.5m 2 years ~~13 months~~	£2.5m 2 years ~~13 months~~
A-	£2.5m 6 months	£5m 13 months	£2.5m 13 months	£2.5m 13 months
BBB+	£1m 100 days	£2.5m 6 months	n/a	£1m 6 months
BBB ~~or BBB-~~	£1m next day only	£2.5m 100 days	n/a	n/a
None	£1m 6 ~~3~~ months	n/a	~~N/A~~ £5m 10 years	n/a
Money Market ~~Funds~~ Pooled Funds	£5m per money market fund and a maximum £10m in the Property Fund			

This table must be read in conjunction with the detailed notes within the approved strategy and the limits stated in Table 6 (as amended below).

[1] Note: The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Delete Paragraph 21

~~**Money Market Funds:** These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of~~

~~investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts.~~

Insert new Paragraph 21a & 21 b

21 a. Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee which can range between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Short-term Money Market Funds that offer same-day liquidity and very low volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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

Paragraph 27

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to medium and long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 5 below.

Table 5: Non-Specified Investment Limits

	Cash limit
Total medium and long-term investments	£25m ~~15~~m
Total investments without credit ratings or rated below A- ~~BBB-~~	£10m
Total Limit on non-specified investments	£35m ~~25~~m

Paragraph 31

Use of Specified and Non-Specified Investments

The selection of specified and non-specified investments will be undertaken by the Head of Finance and Governance Services who will keep the making of such investments under continuous review in the light of risk, liquidity and return and the framework set out in this Strategy. A schedule will be included in the Council's TMP's for staff and circulated to members as a background paper to the strategy and when/if it is updated during the year. **Investment Limits**: The Authority's uncommitted revenue reserves available to cover investment losses are forecast to be £18.4 million on 31st March 2015. These uncommitted reserves include the following items; General Fund

Balance £5m, Revenue Support £1.3m, New Homes Bonus £4.7m and currently £7.4m uncommitted resources as stated in the Resources Statement reported to Cabinet in February 2015. In order that no more than 27% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors as below:

Table 6: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker with Max of £5m in covered bonds
Foreign countries	£5m per country
Unsecured investments with Building Societies	£5m in total
Money Market Funds	£10m in total

Paragraph 33

Treasury Management Indicators

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

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

Table 9: Principal Sums Invested for Periods Longer than 364 days

	2015/16	**2016/17**	**2017/18**
Limit on principal invested beyond year end	£25 m ~~£15 m~~	£20m ~~£9m~~	£15m ~~£6m~~

Table 9 sets out the upper limit for each forward financial year period for the maturing of investments for periods longer than 364 days up to their final maturities beyond the end of the financial period. The limit for 2015-16 equals the total medium and long term investment limit stated in table 5. The next two financial year limits are smaller, effectively limiting the investments that can be made for longer than 2 years and 3 years. In essence this reflects a potential maturity pattern of the medium and long term debt.~~, in that £6m should mature in 2016-17, and another £3m in 2017-18. The remaining balance would mature beyond 2017-18, but no longer than 2019/20.~~

TREASURY MANAGEMENT PRACTICE NOTES

TMP 1 – RISK MANAGEMENT

General Statement

The Section 151 Officer will oversee the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk. The Section 151 Officer will ensure that reports are presented at least annually, on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives.

In respect of each of the following risks, the arrangements that seek to ensure compliance with these objectives are set out in this document and take into account the risk appetite statement in the Council's Treasury Management Strategy Statement.

[1] Credit and Counter party risk management

The Office of the Deputy Prime Minister, (now Communities and Local Government), issued Investment Guidance in 2004, and also the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 (SI 2007/573), which constrain the types of investments that local authorities can use, and so forms the structure of the Council's policy. The CLG issued further guidance effective from 1 April 2010, where the Council had to state its approach to assessing the risk of loss of investments; this has been incorporated into the Council's policy.

The key intention of the Guidance is to maintain the current requirement that councils invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires the Council to have regard to the CIPFA publications Treasury Management in Public Services: Code of Practice and Cross-Sectoral Guidance Notes and the sector specific guidance; Guidance Notes for Local Authorities including Police Authorities and Fire Authorities. The Council first adopted the TM Code in 2003, and adopted the revised 2009 TM Code in March 2010, and adopted the revised 2011 TM Code February 2012. Accordingly, the Council will ensure that its counter party lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 (Approved instruments, methods and techniques).

It also recognises the need to have, and will therefore maintain, a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Monitoring Investment Counterparties

The assessment of credit worthiness or credit rating of investment counterparties will be monitored regularly. The Council obtains credit rating via its treasury adviser who monitor all 3 credit ratings (FITCH, Moody's and Standard and Poor's), and will notify any changes in ratings as they occur. This includes and takes account of changes, ratings watches and rating outlooks as necessary. In accordance with the revised TM Code the Council will need to have regard to the ratings issued by the three main agencies, and base its decisions on the lowest rating. The Council is already mindful of the other possible sources of information available to assess the credit worthiness of investment counterparties. This includes information direct from brokers, the Financial Times, news agencies and its treasury advisers monitoring the Credit Default Swaps (CDS) market. Officers assess trends of interest rates offered by counterparties.

Officers monitor the credit ratings via the information supplied by its treasury advisers, to ensure compliance to the rating criteria, and where necessary taking into account any other information which may influence the decision as to whether to exclude a counter party or not. Monthly counterparty lists matching the Council's criteria are supplied by its treasury advisers.

On occasions ratings may be downgraded after an investment has been made, however, the criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria or due to adverse information in the public domain, will be removed from the approved list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

[2] Liquidity Risk Management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements and overdraft facilities to enable it at all times to have a level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme.

To maintain flexibility and liquidity the maximum amount of medium and long term lending is set at £20m; the balance of surplus funds will be held short term, with a minimum of £10m available within a 3 month period.

[3] Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 (Reporting requirements and managing information arrangements).

The effects of varying levels of inflation, in so far as they can be identified as impacting directly on its Treasury Management activities, will be controlled by the Council as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required approval of any policy or budgetary implications.

Objective: To minimise the financial risk to which the Council is exposed in both cash deposits and borrowing the Council aims:

(i) to minimise the interest burden to the Council arising from any borrowing; and
(ii) to optimise the interest earned. (Unless otherwise directed by the Council whilst protecting capital sums deposited.)

In order to achieve these objectives the following specific policies should be adopted:

(i) to maintain the Council's debt free position and undertake no new borrowing unless the business case is proven for invest to save projects
(ii) to retain an appropriate minimum level of reserves in order to maintain flexibility in the use of interest earned from deposits
(iii) to lend surplus funds only to approved institutions in accordance with DCLG Investment Guidance. A list of Approved Cash Deposit Instruments is detailed in TMP 4 [5].
(iv) To minimise short term borrowing by efficient cash flow management.
(v) To ensure that the use of any hedging tools such as derivatives are only used for the management of risk and prudent management of the financial affairs of the council, and that the policy for the use of derivatives is clearly detailed in the annual strategy.

In balancing risk against return, the Council should be primarily concerned with the security of the investment before seeking to maximise returns.

[4] Exchange rate Risk Management

Whilst the Council does not invest in foreign denominations, it does occasionally make payments to suppliers. In so doing it will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income expenditure levels. Any large contracts entered into by the Council must be denominated in £Sterling and the Section 151 Officer consulted on any proposed departure from this policy.

[5] Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationship with counter parties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

[6] Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance if required to do so, to all parties with whom it deals in such activities. In framing its credit and counter party policy the Council will ensure that there is evidence of counter parties' powers, authority and compliance in transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, in so far as it is reasonable to do so, will monitor such changes and seek to minimise the risk of these impacting adversely on the organisation.

[7] Fraud error and corruption, and contingency management

The Council will ensure that it has identified the circumstances that may expose it to the loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly it will employ suitable systems and procedures and will maintain effective contingency management arrangements, to these ends.

[8] Market Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests. The Council limits itself to short term moderate fluctuations for investments principally held to manage market risk.