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MERTHYR TYDFIL
County Borough Council
Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL

FULL COUNCIL REPORT

Date Written	7th March 2016
Report Author	Steve Jones/Adele Lewis
Service Area	Finance
Committee Division	Strategic
Committee Date	23rd March 2016

To: Mayor, Ladies and Gentlemen

Medium Term Financial Plan 2016/17 to 2019/20

1.0 SUMMARY OF THE REPORT

1.1 The reporting of the Council's Medium Term Financial Plan to a full Council meeting is a requirement of the Local Government Act 2003.

1.2 The Council Tax increase of 3.5% and Budget Requirement of £114.245 million for 2016/17 was approved by Council on 2nd March 2016 (Appendix A).

1.3 The Capital Programme 2016/17 to 2019/20, recommended to this Council for approval by Cabinet of 9th March 2016, totals £10.896 million for 2016/17 and £30.542 million for 2016/17 to 2019/20 (Appendix B).

1.4 The Medium Term Financial Plan 2016/17 to 2019/20 indicates a revenue budget deficit of £4.079 million for 2016/17 (Change Management Programme identified a projected £4.259 million budget reductions) and £20.302 million for the 4 year period 2016/17 to 2019/20 (Appendix C).

1.5 The Treasury Management Policy Statement and Annual Investment Strategy 2016/17 (including Prudential Indicators) are included within the Medium Term Financial Plan document (Appendix C).

1.6 The outcomes of the 'Council Priorities and Budget Consultation 2016/17' exercise are included within the Medium Term Financial Plan document (Appendix C).

2.0 RECOMMENDATION(S) that

2.1 The Capital Programme for 2016/17 to 2019/20 of £30.542 million outlined in Appendix B be approved, subject to funding confirmation from external providers.

2.2 The Medium Term Financial Plan 2016/17 to 2019/20 (including the Treasury Management Policy and Annual Investment Strategy 2016/17) outlined in Appendix C, be approved.

2.3 The outcomes of the 'Council Priorities and Budget Consultation 2016/17' exercise, outlined in Appendix C, be noted.

2.4 The Prudential Indicators contained within the Medium Term Financial Plan, be approved with authorisation for managing and monitoring the authorised limit and operational boundary, delegated to the Chief Finance Officer.

3.0 INTRODUCTION AND BACKGROUND

3.1 The Local Government Act 2003 requires Local Authorities to demonstrate an integrated approach in determining their revenue and capital spending decisions through an integrated Medium Term Financial Plan (MTFP), evidencing the impact of financial decisions and ambitions on the Council Tax payer.

3.2 Council of 2nd March 2016 approved both the Council's Revenue Budget Requirement and Council Tax increase for 2016/17 at £114.245 million and 3.5% respectively, and is summarised in Appendix A.

3.3 The reporting of the Medium Term Financial Plan, Capital Programme and Prudential Indicators to this Council meeting of 23rd March 2016 was noted by Council of 2nd March 2016.

4.0 CAPITAL PROGRAMME 2016/17 – 2019/20

4.1 Capital expenditure incurred in supporting capital investment decisions are financed through the following means:

- Borrowing – whether supported or unsupported
- Capital Grants – including external grants from a range of providers
- Capital Receipts – proceeds from the sale of the Council's surplus fixed assets
- Revenue contributions – if deemed affordable through an integrated Medium Term Financial Plan

4.2 The proposed Council Capital Programme totals £10.896 million for 2016/17 and £30.542 million for the 4 year period 2016/17 to 2019/20 and is outlined in Appendix B, building upon the Capital Programme 2015/16 to 2019/20 reported to Council on 25th March 2015.

4.3 It should be noted that only the Council's own capital finance resources are included, namely General Capital Funding (received by the Welsh Government), Capital Receipts, specific Welsh Government Supported Borrowing and Unsupported Borrowing through the Prudential Code Framework. A significant amount of additional capital investment is supported by external providers such as Welsh Government, Heads of the Valley Programme, Heritage Lottery Fund and European Regional Development Fund, demonstrating the Council's effectiveness in working with partners to support its capital investment ambitions.

4.4 In arriving at the proposed Capital Programme for 2016/17 to 2019/20, all recommended projects have been assessed against Corporate Priority Outcomes and/or Corporate Risks and referenced to the Asset Management Plan where applicable. It is recognised that owing to funding restrictions there may be a number of potential significant projects currently not included within the proposed Capital Programme which may result in further urgent requests for capital funding during 2016/17.

4.5 The Capital Programme is considered in more detail in Paragraph 7 of the Medium Term Financial Plan, appended as Appendix C to this report and is recommended for approval to this Council by Cabinet of 9th March 2016.

5.0 MEDIUM TERM FINANCIAL PLAN

5.1 In order to be able to deliver the Council's aspirations as set out in its Corporate Plan, meet its statutory responsibilities, and at the same time be attentive to the needs of the communities it serves, the Council must take a very proactive approach to managing its resources effectively so that it can adequately fund its business plans yet keep Council Tax increases as low as possible.

5.2. The Medium Term Financial Plan is seen as a key tool for proactive financial management and is set out at Appendix C of this report. It is used as the basis of the annual budget setting process to ensure that the Council's resource needs for the forthcoming year are sufficient and aligned to the correct services' but also allows for future projected funding requirements to be identified far enough ahead so as to be able to take appropriate action to deal with any anticipated funding shortfalls.

5.3 For ease of reference indicative further required revenue budget reductions for the period of the Medium Term Financial Plan 2016/17 to 2019/20 are summarised in Table 1.

Table 1 – Indicative Revenue Budget Reductions

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Budget Required	118,324	121,955	124,648	126,874
Finance Available	-114,245	-111,938	-109,345	-106,572
Indicative Budget Deficit	4,079	10,017	15,303	20,302

5.4 It is evident from Table 1 that the Council is faced with identifying an estimated circa £5 million per annum of real term budget reductions to deliver balanced budgets for the foreseeable future and is addressed within the detailed Medium Term Financial Plan document appended as Appendix C. As reported to Council on 2nd March 2016, budget reductions of £4.259 million are projected to be delivered for 2016/17 through the Council's Change Management Programme.

5.5 The Medium Term Financial Plan 2016/17 to 2019/20 was considered and recommended for approval to this Council of 23rd March 2016 by Cabinet of 16th March 2016.

6.0 PRUDENTIAL CODE FOR CAPITAL FINANCE

6.1 The Prudential Code introduced from 1st April 2004, plays a key role in Capital Finance in Local Authorities. Local Authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services.

6.2 The key 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.

6.3 In order to demonstrate that Local Authorities have fulfilled the requirements of the Code in relation to Affordability, Prudence and Sustainability, the Prudential Code sets out a range of indicators that must be used. These indicators are detailed within the Treasury Management Policy Statement and Annual Investment Strategy 2016/17 included as Appendix 11 within the Medium Term Financial Plan document (Appendix C).

7.0 FINANCIAL IMPLICATION(S)

7.1 The financial implications are outlined throughout this report and in the accompanying appendices and are summarised as follows:

- Council Tax increase of 3.5% and Budget Requirement of £114.245 million for 2016/17 (Appendix A).

- Indicative “core funded” Capital Programme 2016/17 to 2019/20 of £30.542 million with £10.896 million required for 2016/17 (Appendix B).

- Budget Deficit of £4.079 million for 2016/17 and £20.302 million for the 4 year period 2016/17 to 2019/20 required to be addressed through the Council’s Change Management Programme (Appendix C).

- A projected £4.259 million budget reductions, through the Change Management Programme are anticipated for 2016/17 to address the reported budget deficit.

8.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

8.1 The Single Integrated Plan and Sustainability Impact Assessment has been completed and the proposals positively impact on the Financial Sustainability of Public Services.

9.0 EQUALITY IMPACT ASSESSMENT

9.1 An Equality Impact Assessment (EqIA) screening form has been prepared for the purpose of this report. It has been found that a full report is not required at this time. The screening form can be accessed on the Council’s website/intranet via the ‘Equality Impact Assessment’ link.

GARETH CHAPMAN
CHIEF EXECUTIVE

COUNCILLOR PHIL WILLIAMS
CABINET MEMBER FOR GOVERNANCE AND CORPORATE SERVICES

BACKGROUND PAPERS

Title of Document(s)	Document(s) Date	Document Location
Medium Term Financial Plan 2015/16 to 2017/18	25th March 2015	Council agenda and minutes / Finance Department
Provisional Local Government Settlement 2015/16	9th December 2015	Finance Department
Budget Requirement 2016/17 to 2019/20	27th January 2016	Cabinet agenda and minutes / Finance Department

Budget Requirement 2016/17 to 2019/20	27th January 2016	Joint Scrutiny/Audit Committee agenda and minutes / Finance Department
Flexible Use of Capital Receipts (Draft document) – Minister for Public Services	9th February 2016	Finance Department
Update to the Provisional Local Government Settlement 2016/17	10th February 2016	Finance Department
Budget Requirement and Council Tax 2016/17	24th February 2016	Cabinet agenda and minutes / Finance Department
Budget Requirement 2016/17 to 2019/20 - Update	24th February 2016	Joint Scrutiny/Audit Committee agenda and minutes / Finance Department
Budget Requirement and Council Tax 2016/17 – State of the Council Debate	2nd March 2016	Council agenda and minutes / Finance Department
Final Local Government Settlement 2016/17	2nd March 2016	Finance Department
Capital Programme 2016/17 to 2019/20	9th March 2016	Cabinet agenda and minutes / Finance Department
Council Priorities and Budget Consultation 2016/17	16th March 2016	Cabinet agenda and minutes
Medium Term Financial Plan 2016/17 to 2019/20	16th March 2016	Cabinet agenda and minutes / Finance Department
Medium Term Financial Plan / Budget Working Papers	February 2015 to March 2016	Finance / Directorates
Does the report contain any issue that may impact the Council's Constitution?		**No**

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.

Appendix A

Budget Requirement 2016/17
Council 23 March 2016
Corporate Summary

Revised Budget 2015/16	Description	Gross Expenditure 2016/17	Gross Income 2016/17	Net Budget 2016/17	Variance	
£		£	£	£	£	%
71,020,000	People and Performance Directorate	86,663,000	-12,802,000	73,861,000	2,841,000	4.00
21,806,000	Place and Transformation Directorate	32,629,000	-10,678,000	21,951,000	145,000	0.66
22,063,601	Corporate Costs	43,975,000	-21,429,000	22,546,000	482,399	2.19
755,000	Net Employee Severance Costs/Slippage	1,222,000	0	1,222,000	467,000	61.85
-1,341,460	Non General Fund Allocations	-976,000	0	-976,000	365,460	27.24
20,000	Discretionary Non Domestic Rate Relief	20,000	0	20,000	0	0.00
-600,000	Collection Fund Surplus	0	-600,000	-600,000	0	0.00
-200,000	Corporate Vacancy Factor	-200,000	0	-200,000	0	0.00
-312,000	Net Contribution to/(from) Earmarked Reserves	0	0	0	312,000	100.00
614,294	Outcome Agreement Grant /Corporate Risk Fund	600,000	0	600,000	-14,294	2.33
0	Contribution from Biffa Profit Sharing Scheme	0	-100,000	-100,000	-100,000	n/a
0	Change Management Programme	-3,579,300	-500,000	-4,079,300	-4,079,300	n/a
113,825,435	**Net Expenditure**	**160,353,700**	**-46,109,000**	**114,244,700**	**419,265**	**0.37**
-89,848,254	Aggregate External Finance	n/a	n/a	-89,188,646	659,608	0.73
23,977,181	Net Expenditure Met From Council Tax	n/a	n/a	25,056,054	1,078,873	4.50
17,725.11	Council Tax Base	n/a	n/a	17,896.23	171.12	0.97
1,352.72	**Merthyr Tydfil CBC Council Tax Band D**	**n/a**	**n/a**	**1,400.07**	**47.35**	**3.50**

Appendix B

Capital Programme 2016/17 to 2019/20
Council 23 March 2016

Expenditure	Revised 2016/17 £'000	Revised 2017/18 £'000	Revised 2018/19 £'000	Revised 2019/20 £'000	Total £'000
21st Century Schools Programme					
Afon Taf High School Remodelling	1,931	1,375	0		3,306
Ysgol Y Graig Primary School	200	1,000	3,800		5,000
	2,131	2,375	3,800		8,306
Physical Regeneration Programme					
Building for the Future (Castle)	250	250	0		500
Building for the Future (Glebeland Site)	50	0	0		50
Vibrant and Viable Places Programme	486	200	50		736
Townscape Heritage Initiative Programme	50	50	50		150
Parks for People 2	20	50	50		120
Cyfarthfa Furnaces	150	150	150		450
	1,006	700	300		2,006
Riverside					
Riverside Project	290	0	0		290
Riverside Phase 3 Taff and Crescent Street	439	404	351		1,194
	729	404	351		1,484
Other Projects					
Schools Feasibility Studies	60	0	0		60
Cyfarthfa High School Roof Replacement	124	129	0		253
Ysgol Rhyd Y Grug Primary School	250	0	0		250
Disabled Facilities Grants	850	850	850		2,550
Highway Maintenance	600	600	600		1,800
Replacement Expansion Joints, Fiddlers Elbow	1,000	0	0		1,000
Brandy Bridge, Abercanaid	200	300	0		500
Road Slippage South of Pontygwaith	500	0	0		500
Corporate Maintenance	235	235	235		705
Land Purchase	1,100	0	0		1,100
Depot Review	100	547	0		647
Investment costs	900	0	0		900
Redundancy costs	750	750	750		2,250
Costs of Supporting Capital Projects	361	361	361		1,083
Unallocated	0	0	1,026	4,122	5,148
	7,030	3,772	3,822	4,122	18,746
Total	**10,896**	**7,251**	**8,273**	**4,122**	**30,542**

Appendix B (continued)

Capital Programme 2016/17 to 2019/20
Council 23 March 2016

Funding	Revised 2016/17 £'000	Revised 2017/18 £'000	Revised 2018/19 £'000	Revised 2019/20 £'000	Total £'000
General Capital Funding - Grant	**992**	**992**	**992**	**992**	**3,968**
Supported Borrowing					
General Capital Funding - Supported Borrowing	1,630	1,630	1,630	1,630	6,520
WG Supported Borrowing - 21st Century Schools	431	0	0	0	431
	2,061	**1,630**	**1,630**	**1,630**	**6,951**
Capital Receipts					
Capital Receipts - Capitalisation	750	750	750	750	3,000
Capital Receipts - Riverside	439	404	351	0	1,194
	1,189	**1,154**	**1,101**	**750**	**4,194**
Unsupported Borrowing					
Unsupported Borrowing - General	4,954	1,100	750	750	7,554
Unsupported Borrowing - 21st Century Schools	1,700	2,375	3,800	0	7,875
	6,654	**3,475**	**4,550**	**750**	**15,429**
Total	**10,896**	**7,251**	**8,273**	**4,122**	**30,542**

Appendix C

MERTHYR TYDFIL COUNTY BOROUGH COUNCIL

MEDIUM TERM FINANCIAL PLAN

2016/17 – 2019/20

March 2016

1.0 <u>Introduction</u>

1.1 Local Government is faced with significant demanding future challenges in marrying corporate and service expenditure plans and priorities to scarce available financial resources. This becomes even more critical when acknowledging the Institute for Fiscal Studies projection that the current financial austerity measures could continue into the next decade.

1.2 It is imperative that Merthyr Tydfil County Borough Council (MTCBC) recognizes these challenges and aligns budgets and spending plans to corporate priorities through the implementation of a robust rolling programme Medium Term Financial Plan (MTFP) continuously updated to take into account changing circumstances, future demands, priorities and initiatives. Consequently, regular reporting to Corporate Management Team, Cabinet, Audit Committee and Scrutiny Committees is both desirable and essential.

1.3 A meaningful, continuously updated MTFP has the following advantages:

- Informs the budget process
- Allows timely recognition of future budget pressures, minimising unforeseen demands
- Allows budget decisions to be based on priorities rather than the requirement to arbitrarily reduce costs
- Supports earlier budget setting since financial decisions are being recommended earlier in the year
- Supports integration of Council plans and policies

1.4 To ensure ownership of the MTFP by all stakeholders, for example members, senior management, service managers and finance professionals', the MTFP must be a meaningful tool in informing effective decision making and financial planning.

1.5 A meaningful MTFP should be fully integrated to aid financial planning and corporate decision making. The following are considered within the Council's MTFP for 2016/17 to 2019/20:

- Section 2 – Corporate Plan
- Section 3 – Asset Management Plan
- Section 4 – Strategic Workforce Plan
- Section 5 – Financial Context
- Section 6 – Revenue Budget
- Section 7 – Capital Programme
- Section 8 – Treasury Management
- Section 9 – Reserves Strategy

2.0 Corporate Plan

2.1 Underpinning all of the considerations within Sections 3 and 9 is the requirement for the MTFP to be determined by corporate spending priorities through the Priority Outcomes included in the Single Integrated Plan and Corporate Plan supporting the Council's Corporate Strategy.

2.2 The Corporate Plan 2013–2017, approved by Council on 23rd April 2014, identifies the Council's Improvement Objectives (Priority Areas) which directly link to Priority Outcomes within the Single Integrated Plan 2013 to 2017 (revised at Council 4th November 2015).

2.3 The Council reviews its Corporate Plan each year to ensure it continues to reflect the Council's corporate improvement priorities with the *'Corporate Plan – Annual Delivery Document 2015/16'* approved by Council on 17th June 2015.

2.4 The Vision for the Single Integrated Plan and Corporate Plan is confirmed as follows:

"To strengthen Merthyr Tydfil's position as the regional centre for the heads of the valleys and be a place to be proud of where:

- People learn and develop skills to fulfil their ambitions
- People live, work, have a safe, healthy and fulfilled life
- People visit, enjoy and return"

2.5 The Vision is supported by the following four Priority Outcomes:

- People in Merthyr Tydfil have the opportunity and aspiration to learn and develop their skills to maximise their potential **(delivered through the 'Raising Standards' theme)**

- People in Merthyr Tydfil benefit from a strong, sustainable and diverse economy **(delivered through the 'Economic Growth' theme)**

- People who live and work in Merthyr Tydfil are supported to enjoy a healthier and better quality of life **(delivered through the 'Improving Well-being' theme)**

- People enjoy a vibrant, attractive, safe and sustainable place in which to live, work, play and visit **(delivered through the 'Sustainable Environment' theme)**

2.6 The seven Priority Areas identified in the Corporate Plan are as follows:

1. Raising standards of attainment
2. Employability
3. Economic development
4. Active Lifestyles
5. Promoting independence
6. Meeting the needs of vulnerable children
7. A sustainable environment

2.7 The Corporate Plan and MTFP complement each other and include explicit links between resources and corporate priorities as demonstrated in Section 6 for revenue expenditure and Section 7 for capital expenditure.

3.0 Asset Management Plan

3.1 The Corporate Asset Management Plan 2014/2019 was approved by Council on 26th March 2014. The Plan recognises that the effective management of property is fundamental to the Council's ability to deliver on its corporate priorities and on its ability to sustain wider service delivery.

3.2 Cabinet of 22nd April 2015 was advised of a required update to the Asset Management Plan resulting from changes to priorities and operational needs arising from a review of Service Asset Management Plans.

3.3 The Plan sets out the vision for asset management where:

- The property portfolio is aligned to corporate priorities and service requirements
- Appropriate investment is made in capital projects
- The portfolio is efficiently maintained, is fit for purpose and meets health and safety requirements

3.4 The Corporate Asset Management Plan includes appendices in respect of:

- Asset Management work streams
- Maintenance Strategy
- Office Accommodation Strategy
- Energy Policy
- Community Organisation Rental Policy

3.5 The Plan is a live document updated, as necessary, to reflect changes to service delivery, Council structures and legislation. In addition, an annual update report will be made to Cabinet throughout the life of the Plan.

3.6 Fundamental to improving and strengthening links with the Medium Term Financial Plan has been the implementation of the new **Asset Management System**, which ensures that all financial and property management systems are linked to a single, complete and accurate Asset Register. The Technology Forge (TF), were appointed in September 2011 following a tender exercise to provide a corporate Asset Management Software System. This system provides an integrated Asset Register, which facilitates the production of the Council's Capital Accounts and enables a corporate approach to Asset Management Planning.

3.7 The **Workforce Plan** is completed as part of the performance management yearly cycle, focusing on gaps in service delivery where staff numbers and skills are considered inadequate. Accommodation requirements and the potential for mobile or flexible working practices are also explored as part of the workforce planning process. This exercise informs the Medium Term Financial Plan, provides data which informs the **Office Accommodation Strategy** and provides for continuous review of the office accommodation requirements.

3.8 The Authority's **Property Review** Officer is tasked with rationalisation of the Property portfolio, re-allocating property to appropriate service areas and identifying potential surplus property thus realising capital receipts.

3.9 To enable continued improvements to **energy management and carbon reduction**, Cabinet of 12th February 2014 approved an application to Salix Finance for an interest free loan of £2.2 million to upgrade the Authority's street lighting lanterns from high pressure sodium units to new energy efficient Light Emitting Diode (LED) lanterns. This loan would be repaid over 8 years by which time it is projected that gross savings of £2.7 million would be achieved. Over the estimated 20 year life of the equipment it is projected that gross savings of £10.4 million will be realised. The Council has worked closely with the Carbon Trust over recent years to assist the authority in effectively targeting energy improvements.

3.10 The Council employs a Technical Energy Officer tasked with identifying and delivering sustainable **energy efficiency** savings.

3.11 The Council currently targets £750,000 of new **Capital Receipts** per annum to support Capital Programme ambitions. A Corporate Maintenance Budget allocation of £235,000 is included in the Capital Programme for essential maintenance work and priorities are managed in accordance with the Maintenance Strategy requirements. An on-going programme of **condition surveys** is underway, which will be facilitated by the availability of hand held technology to enable remote access to the Asset Management System.

3.12 The **Highway Asset Management Plan** (HAMP) was approved by Council on 5th December 2012 setting out a series of actions enabling the Authority, by building on existing processes, to continuously improve its service delivery framework. This will assist in meeting the Authority's strategic goals in the most effective manner given the constraints of statutory requirements, customer expectations and funding considerations.

4.0 Strategic Workforce Plan

4.1 The Strategic Workforce Plan 2014-2017 was approved by Council on 3rd December 2014. Its main purpose is to assist the Council in aligning employee numbers and skills to the needs of the community within a framework of effective financial management

4.2 The Council is faced with identifying significant budget reductions over the term of the MTFP 2016/17 to 2019/20. The Human Resources (HR) Service is active within this requirement in supporting the Council in undertaking redundancies, redeployment, re-structuring services, consultation and skills gap identification.

4.3 The Asset Management Plan plays a significant role in reviewing the Council's property portfolio to help deliver required budget savings and respond to changes in the Council's building requirements. When the workforce changes in numbers or design, as highlighted in the workforce plans, the Asset Management Plan can respond by reviewing the portfolio of Council property required for the future. This in turn can be reflected in savings or priorities achieved within the Medium Term Financial Plan.

4.4 As part of this process, managers review their accommodation needs and the potential to provide for mobile or flexible working practices. This exercise informs the MTFP and provides data which informs the Office Accommodation Strategy providing for continuous review of the office accommodation requirements. There is a formal workforce review built into the Asset Management work stream to regularly capture workforce issues.

4.5 It is clear that the Council's Strategic Workforce Plan's objectives and ambitions are intrinsically linked with effective financial management and planning and as such must be clearly demonstrated and reflected in the Medium Term Financial Plan.

4.6 In 2015/16 the Council developed the 'Steering the Ship' strategy which created a robust strategic plan integrating corporate priorities to the MTFP and people strategies. This strategy further strengthens strategic workforce planning within the Council in recognising the intrinsic link between workforce planning, asset management (including information technology) and financial sustainability.

4.7 The Strategic Workforce Plan clearly indicated the requirement for all Council services to review and reduce the dependency on agency workers and overtime working. This has resulted in the Council more than halving the number of agency workers in the workforce, with the current HR and workforce strategies continuing this work, alongside the development of leadership, management and wider employee skills. This is linked to the Transformational Change Programme whereby workforce considerations are considered to be an essential part of delivering successful projects.

4.8 In recognising its responsibility as the main employer in the County Borough area the Authority in setting its Budget for 2016/17 under challenging financial pressures, has committed itself to avoiding employee compulsory redundancies wherever possible by providing further opportunities for those employees at risk of compulsory redundancy to leave the organisation on a voluntary basis.

5.0 Financial Context

5.1 Central Government's proposals to tackle the national public sector borrowing deficit resulting from the global financial crisis has resulted in reduced financial settlements for the public sector for the medium to long term. The Institute for Fiscal Studies in its report *"Local Government Expenditure in Wales: Recent Trends and Future Pressures"* (October 2012) is projecting financial austerity constraints until at least 2020/21.

5.2 On 1st March 2016 the Welsh Government published its final budget for 2016/17 which included £260 million of extra revenue funding to Health and Health Services to deliver high quality, sustainable health services. It is against this background of additional funding for the National Health Service (NHS) that Local Government is faced with bearing a disproportionate degree of financial reductions.

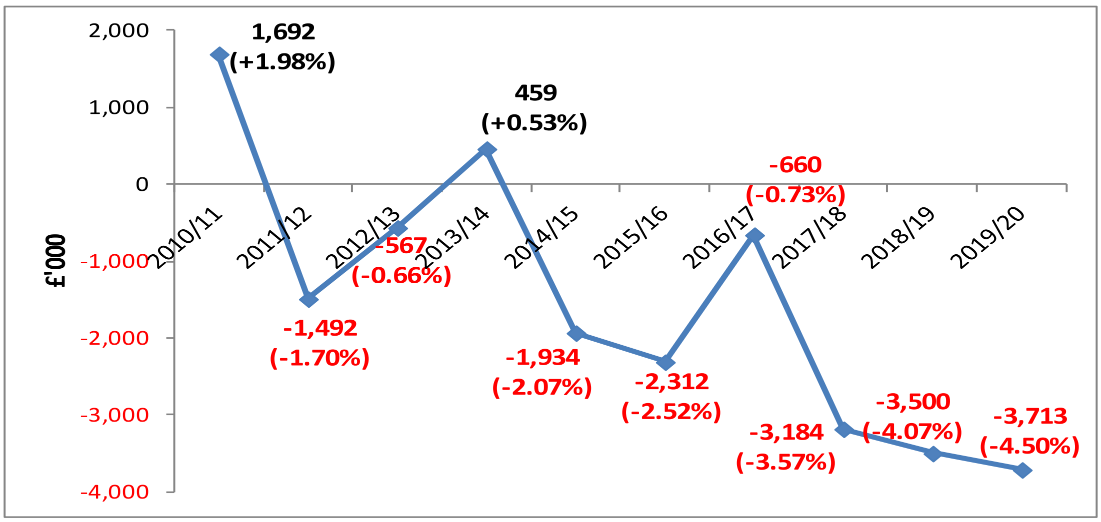
5.3 Revenue Settlement

5.3.1 The Welsh Government (WG) announced the Final Local Government Settlement for 2016/17 on 2nd March 2016 with an Aggregate External Finance (AEF) reduction of 1.31% for Wales. The AEF is the total revenue funding received from the WG and is the sum of the Revenue Support Grant and Redistributed Non-Domestic rates. The Council's AEF reduced by 0.73% with no indicative AEF figures provided for future years.

5.3.2 The base budget for 2015/16 was increased by a net £559,895 to allow for a transfer in to the settlement for 2016/17 of the Outcome Agreement Grant (£614,294), net of a formula adjustment (-£54,399).

5.3.3 The Council's revenue settlements for the period 2010/11 to 2016/17, and estimated settlements for 2017/18 to 2019/20, focusing on cash impact, are outlined in Figure 1. It should be noted that the Council Tax Reduction Scheme grant impact is excluded for 2013/14 to enable a more equitable funding comparison.

<u>Figure 1 – Cash and % Changes in AEF 2010/11 to 2019/20</u>



5.3.4 It is evident from Figure 1 that the Council has faced significant financial challenges for the period 2011/12 to 2016/17 with increasing financial challenges prudently projected for the remainder of the period of the MTFP. Since 2014/15 the Council has entered a period of unprecedented funding reductions, as Central Government continues its policy of financial austerity.

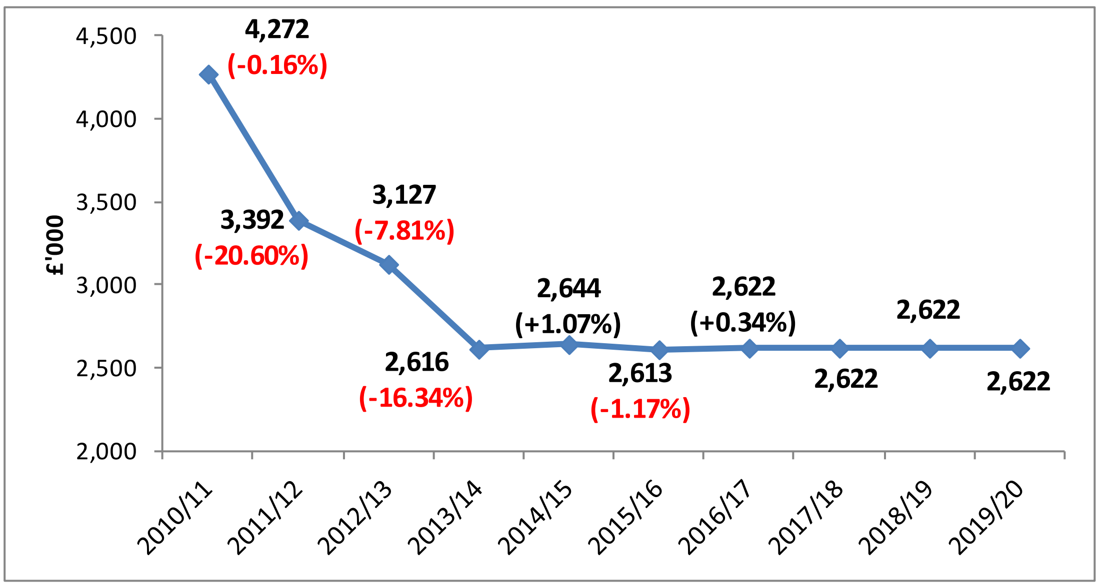
5.3.5 It is clear that the four year period of this MTFP is critical in transforming the Authority in ensuring it is fit for purpose to meet financial challenges for the future in aligning scarce resources to corporate priorities ensuring effective and efficient service delivery is both maintained and further developed and improved. This process needs to be managed against a background of continuing financial austerity imposed by Central Government, together with the prospect of Local Government Reorganisation in 2020/21.

5.4 Capital Settlements

5.4.1 The WG in its announcement of the Final Local Government Settlement for 2016/17 on 2nd March 2016 notified Authorities of General Capital Funding (GCF) allocations for 2016/17. GCF is the sum of General Capital Grant and Un-hypothecated Supported Borrowing and is used to finance the costs of the Council's capital investment ambitions.

5.4.2 Outlined in Figure 2 are the GCF allocations for 2010/11 to 2016/17 with estimated allocations for 2017/18 to 2019/20 together with percentage yearly variations in capital funding. It is clear that Capital Settlements have reducing significantly over the period 2010/11 to 2013/14 before stabilising at around £2.6 million per annum.

Figure 2 – GCF Allocations 2010/11 to 2019/20



5.4.3 It is evident from Figure 2 that current capital funding through the GCF has reduced by £1.65 million (38.6%) from 2010/11 to current funding levels. If GCF had been maintained at the 2010/11 level then the Council would have received an additional £8.618 million funding up until 2016/17. This reduction has placed additional pressures on the Council to satisfy capital investment requirements at a time when demand for capital investment in highways infrastructure, schools' reconfiguration and maintaining ageing property assets is increasing.

5.4.4 The Council's core capital funding can be supplemented by capital receipts, which are receipts to the Authority from the disposal of its fixed assets. In addition the Council is able to enter into unsupported borrowing through the Prudential Code Framework for Capital Finance as long as this initiative is considered affordable, prudent and sustainable.

Another capital finance source is revenue contributions but in the current economic climate where revenue funding is constrained this is not considered a realistic option for the Council.

5.4.5 In addition to GCF the Council receives capital grants from a variety of sources, mainly through the guises of WG, which are restricted for specific projects and are governed by the terms and conditions of the grant approval. Under the current financial restrictions, however, specific capital grants may not be as accessible as in previous years.

5.5 Projected Revenue Budget Outturn 2015/16

5.5.1 As reported to Cabinet on 16th March 2016 the projected revenue outturn for 2015/16 as at 31st January 2016 is a net budget surplus of £214,000, net of a £2 million transfer to reserves, earmarked to address the financial implications of supporting the Council's Transformation Programme. A projected net surplus outturn position for 2015/16 has consistently been reported throughout the 2015/16 financial year and demonstrates effective budget management by all Departments.

5.5.2 Budget monitoring during 2015/16 has been supported by effective scrutiny and challenge provided by both the Budget Board and Change Management Board. The projected revenue outturn for 2015/16 is summarised in Table 1 and is based upon the report to Cabinet of 16th March 2016.

Table 1 – Projected Revenue Outturn 2015/16

Description	Budget £'000	Projected Outturn £'000	Variance £'000	Variance %
People and Performance	72,538	72,089	-449	-0.62
Place and Transformation	21,580	21,070	-510	-2.36
Corporate Costs	19,927	19,677	-250	-1.25
Non General Fund Allocations	-1,342	-1,342	0	0.00
Collection Fund Surplus	-600	-600	0	0.00
Corporate Vacancy Factor	711	0	-711	-100.00
Employee Severance Costs	755	569	-186	-24.64
Net Contribution from Earmarked Reserves	-304	-412	-108	-35.53
Transfer to Strategic Transformation Reserve	0	2,000	2,000	n/a
Net Expenditure	**113,265**	**113,051**	**-214**	**-0.19**

5.5.3 Budget pressures experienced during 2015/16 considered “unavoidable” have been reflected in the Medium Term Financial Plan 2016/17 to 2019/20.

6.0 Revenue Budget

6.1 The net Revenue Budget for 2016/17 of £114.245 million approved by Council on 2nd March 2016, together with indicative Net Revenue Budget Requirements and projected budget deficits for 2017/18 to 2019/20 are outlined in Appendices 1 to 4, and summarised in Table 2.

Table 2 – Budget Requirements 2016/17 to 2019/20

Description	2016/17 £’000	2017/18 £’000	2018/19 £’000	2019/20 £’000
People and Performance	73,861	75,830	77,572	78,913
Place and Transformation	21,951	22,740	23,427	24,048
Net Corporate Budgets	22,512	23,385	23,649	23,913
Net Required Expenditure	118,324	121,955	124,648	126,874
Estimated Finance Available	-114,245	-111,938	-109,345	-106,572
Projected Budget Deficit	4,079	10,017	15,303	20,302
Transformation Programme	-4,079	-10,017	-15,303	-20,302
Budget Requirement **	114,245	111,938	109,345	106,572

** indicative for 2017/18 to 2019/20

6.2 It is evident from Appendices 1 to 4 that Budgets have been linked to specific corporate priority areas to demonstrate the proportion of revenue resources allocated to the Council’s corporate priorities for improvement. Additional categories have been introduced as follows:

- ‘Core Business As Usual’ to denote that net expenditure not attributable to any specific priority area
- ‘Change Programme’ to denote the budget reductions to be identified through the Transformation Programme

6.3 The position for 2016/17 is outlined in Table 3 (for gross and net expenditure), together with the code designated to each priority area.

Table 3 – Budget Requirement 2016/17 Linked to Corporate Priority Areas

Priority Area	Code	Gross Budget		Net Budget	
		£'000	%	£'000	%
Raising Standards of Attainment	RSA	47,625	29.70	41,609	36.42
Employability	E	767	0.48	592	0.52
Economic Development	ED	1,003	0.63	671	0.59
Active Lifestyles	AL	2,079	1.30	2,079	1.82
Promoting Independence	PI	24,271	15.13	18,002	15.76
Meeting the Needs of Vulnerable Children	MNVC	11,602	7.23	11,505	10.07
A Sustainable Environment	SE	31,621	19.72	7,065	6.18
Total		118,968	74.19	81,523	71.36
Core Business As Usual	CBAU	44,965	28.04	36,801	32.21
Change Programme	CP	-3,579	-2.23	-4,079	-3.57
Budget Requirement		**160,354**	**100.00**	**114,245**	**100.00**

6.4 It is evident from Table 3 that the core corporate improvement priorities of education and social care make up a significant proportion of the revenue budget for 2015/16 (52% gross and 62% net). It should be noted however that further budget reductions of £4.079 million are in the process of being identified across all Council services.

6.5 The Budget Requirements for 2016/17 to 2019/20 are the culmination of a budget setting process which commenced with the reporting of the MTFP 2015/16 to 2017/18 to Council on 25th March 2015. The indicative budget deficits for 2016/17 to 2017/18 included within the MTFP were subsequently revised at Cabinet on 27th January 2016, with projections for 2018/19 to 2019/20 added to the updated MTFP for 2016/17 to 2019/20.

6.6 Outlined in Table 4 are the revisions to the 25th March 2015 position in arriving at revised budget deficits for 2016/17 to 2019/20.

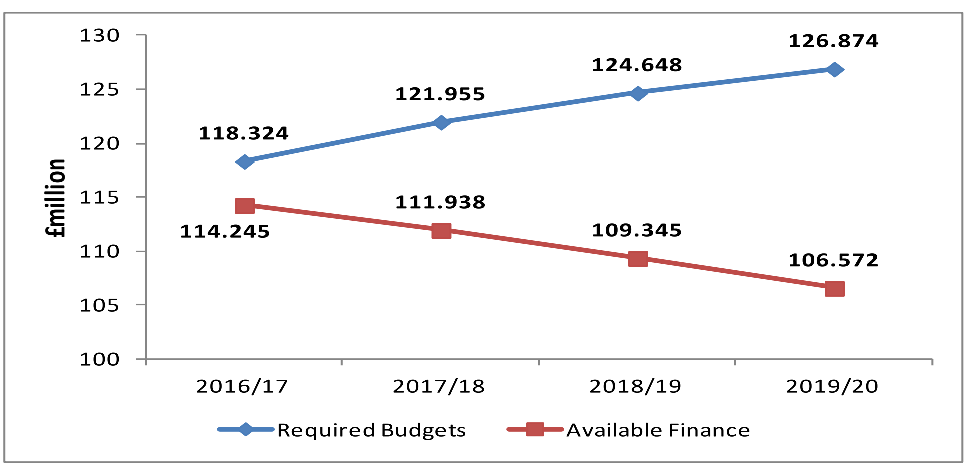
Table 4 – Budget Deficits 2016/17 to 2019/20

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Budget Deficit – Council 25th March 2015	**4,867**	**9,987**	**n/a**	**n/a**
Adjustments from Updated Information	351	74	n/a	n/a
Updated Budget Deficit	**5,218**	**10,061**	**15,622**	**20,220**
Additional Pension Contributions	0	650	****	****
Implications of Provisional Settlement	-2,742	-2,297	-1,922	-1,521
Schools' Cash Protection	1,003	1,003	1,003	1,003
Corporate Risk Fund	600	600	600	600
Final Revised Budget Deficit	**4,079**	**10,017**	**15,303**	**20,302**

Notes
**** included in 'Updated Budget Deficit' line

6.7 It is evident from Table 4 that the Council was and is faced with a revised budget deficit of £4.079 million for 2016/17 alone and in excess of £20 million for the 4 year period of the MTFP, which is being addressed by the corporate change programme. This resulted in the net budget requirements indicated in Table 2, as represented in Figure 3.

Figure 3 – Indicative Budget Deficits 2016/17 to 2019/20



6.8 Adjustments from Updated Information

6.8.1 Appendix 5 outlines the detailed proposed adjustments to the MTFP resulting from updated information in respect of the following:

- Discontinuation of the contribution from employee terms and conditions 2015/16 budget proposal
- Council revocation of previous decision relating to sufficient provision of nursery education
- Implications of 2015/16 in-year savings identified by PricewaterhouseCoopers (PwC) through its service prioritisation exercise
- Implications of the National Joint Council for Local Government Services pay award recommendations for 2016/17 – pay award revised from 2% to 1% and maintained at 1% for the period of the MTFP
- Implications of the single tier state pension effective from 1st April 2016
- Implications of applying the living wage provision from 1st April 2016
- Implications of recent case law in respect of holiday pay for employees regularly working above contracted hours
- Implications of Central Government's Climate Change Levy effective from 1st April 2016
- Implications of re-tendered contracts for transport and insurance
- Re-alignment of budgets to reflect both current and projected financial pressures in respect of bailiff fees, recycling and refuse collection
- Reflection of developments within the Waste Management service
- Implications of required additional borrowing to support capital investment ambitions
- Re-appraisal of budget requirements in respect of council tax benefit demands
- Reflecting changing accounting practices in respect of the treatment of Salix borrowing
- Reflecting minor service budget adjustments resulting from budget re-alignments following review of MTFP assumptions

6.8.2 The adjustments outlined in Appendix 5 result in increases of £351,000 and £74,000 respectively to the 2016/17 and 2017/18 budget deficits as indicated in Table 4.

6.8.3 No adjustment is required for the 2018/19 and 2019/20 financial years since the budget requirements and associated projected budget deficits are calculated with regard to the proposed adjustments.

6.9 Additional Pension Contributions

6.9.1 At the Rhondda Cynon Taf Pension Fund Annual Employer's Meeting on 23rd November 2015, the Fund's actuary Aon Hewitt highlighted the probability that the employer's pension contributions would significantly increase from 2017/18 following the Fund's valuation during the 2016/17 financial year.

6.9.2 Although Aon Hewitt reports that the Rhondda Cynon Taf Pension Fund is performing well, there is an inevitable upward pressure on contributions resulting from the following:

- Fall in assumed pension fund investment returns resulting from the current and future economic outlook
- Longer life expectancy of pension fund members
- Impact of Central Government austerity measures with greater number of employees leaving the Council than expected together with lower pay growth than anticipated

6.9.3 Aon Hewitt's outlook in respect of employer's contributions to the Rhondda Cynon Taf Pension Fund is outlined in Table 5 and demonstrates an increase in the past service pension deficit for all employers contributing to the Fund.

Table 5 – Outlook for Pension Fund Contributions

Description	**31 March 2013**	**30 Sept 2015**
Employer Future Service Rate	13.8%	16.0%
Past Service Pension Fund Shortfall	£585.0 million	£877.6 million
Deficit Contributions per annum (over 25 years)	£29.4 million	£40.4 million

6.9.4 It is evident from Table 5 that to address the past service pension fund shortfall, deficit contributions are required to increase by £11 million per annum (over 25 years) from that projected at the previous Fund valuation date of 31st March 2013 (£29.4 million) to the current projection at 30th September 2015 (£40.4 million).

6.9.5 The MTFP impact from the projected pension contribution increase is outlined in Table 6.

Table 6 – Increased Employer's Pension Contributions

Employer's Pension Contribution	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Original MTFP Calculations	25.5%	26.2%	26.9%	27.6%
Revised MTFP Calculations	25.5%	29.1%	32.0%	35.0%
Increased Pension Contributions	n/a	2.9%	5.1%	7.4%
Additional Cost (£'000)	n/a	650	Not Separately Quantified	Not Separately Quantified

6.9.6 It is evident from Table 6 that a projected £650,000 employer's pension contribution is required for the 2017/18 financial year. The financial impact for 2018/19 and 2019/20 have not been separately quantified since the budget requirement and associated projected budget deficits are calculated with regard to the projected pension contribution increase. It is recognised however that the financial liability significantly exceeds that projected for 2017/18.

6.10 Final Revenue Settlement

6.10.1 The Welsh Government's Final Local Government Settlement was announced on 2nd March 2016 and resulted in a reduction in Aggregate External Finance (AEF) for 2016/17 of 0.73% for Merthyr Tydfil County Borough Council (0.74% provisional settlement). No indications were provided in respect of indicative future year settlements thus inhibiting Local Authorities' ability to effectively plan over the medium term.

6.10.2 Owing to the delay in the announcement of the provisional settlement, resulting from the Comprehensive Spending Review only being announced in late November 2015, the provisional settlement included the actual council tax base for 2016/17 instead of the previous year's tax base as in previous financial years. The 2016/17 base was approved by Council on 2nd December 2015 *("Council Tax Base for 2016/17")*.

6.10.3 The MTFP impact from the final settlement is outlined in Table 7 and demonstrates increased spending power of £2.742 million for 2016/17.

Table 7 – Implications of Provisional Local Government Settlement

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Aggregate External Finance (AEF)				
Original MTFP	86,547	83,457	80,061	76,458
Final Settlement	89,189	86,005	82,504	78,792
Increase in AEF	**-2,642**	**-2,548**	**-2,443**	**-2,334**
Council Tax Levy				
Original Council Tax Base	25,056	26,184	27,362	28,593
Final Council Tax Base	25,056	25,933	26,841	27,780
Increase in Council Tax Levy	**0**	**251**	**521**	**813**
Biffa Profit Share Contribution	**-100**	**0**	**0**	**0**
Net Impact of Final Settlement	**-2,742**	**-2,297**	**-1,922**	**-1,521**

6.10.4 Aggregate External Finance (AEF)

The AEF consists of the total of Revenue Support Grant (RSG) and Redistributed Non Domestic Rates and includes the transfer into the revenue settlement of £614,000 Outcome Agreement Grant for 2016/17. This grant was previously held outside of the settlement as a specific grant and was linked to performance measure outcomes.

Table 8 compares the budgeted AEF within the original MTFP with the revised finance assumptions included in the updated MTFP for 2016/17 to 2019/20.

Table 8 – Aggregate External Finance (AEF)

Description	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Original Budgeted AEF	-3.07	-3.57	-4.07	-4.50
Revised AEF	-0.74	-3.57	-4.07	-4.50

Although it is evident from Table 8 that the Council has received a better than anticipated revenue settlement for 2016/17, no revisions to estimated revenue settlements for 2017/18 to 2019/20 are proposed owing to the following:

- The continuing austerity measures projected to be faced by Local Government over the medium term and the impact to potential future Local Government funding from continued financial pressures experienced in the National Health Service
- The Welsh Government's continuing 1% cash protection commitment for schools

6.10.5 Council Tax Levy

The increased spending power implications resulting from the council tax levy are based on the following principles over the 4 year period of the MTFP:

- Council Tax increase of 3.5% per annum
- Council Tax collection rate of 96%
- Council Tax base of 17,896.23 (17,725.11 for 2015/16)

6.10.6 Biffa Profit Share Contribution

Council of 4th November 2015 approved the utilisation of £100,000 of the Biffa Profit Share contribution, received from Biffa Waste Services in respect of its audited 2014/15 accounts, to assist with reducing the Council Tax increase for 2016/17.

6.11 Schools' Cash Protection

6.11.1 The Minister for Public Services in his announcement of the Local Government Settlement for 2016/17 confirmed Welsh Government's continued financial commitment to schools. As a result the Council is expected to maintain the cash protection for schools at 1% above Welsh Government's funding from Central Government.

6.11.2 Table 9 indicates the Welsh Government's Draft Budget for 2016/17 in respect of funding received from Central Government.

Table 9 – Welsh Government Draft Budget

Description	2015/16 £billion	2016/17 £billion	2017/18 £billion	2018/19 £billion	2019/20 £billion
Capital	1.46	1.53	1.52	1.57	1.65
Revenue	12.92	13.03	13.15	13.21	13.29
Total	**14.38**	**14.56**	**14.67**	**14.78**	**14.94**
Increase in Revenue Funding	-0.4%	+0.85%	+0.92%	+0.46%	+0.61%
Potential Schools' Cash Protection	+0.6%	+1.85%	+1.92%	+1.46%	+1.61%

6.11.3 From Table 9 it is evident that the schools' cash protection for 2016/17 is 1.85% and has the following impact upon the MTFP and the Individual Schools Budget (ISB) for 2016/17.

1) Current MTFP – ISB commitment of £36.391 million
2) Growth Requirement – provisional schools growth requirement, reflecting pay awards, increased national insurance contributions and pension costs, salary incremental progressions and increased pupil numbers, of £1.299 million
3) Cash Protection – application of 1.85% cash protection, including ISB surplus prior year adjustment, equates to £1.003 million
4) Schools' Budget Reductions – required budget reductions identified by schools equate to the Growth Requirement (£1.299 million) less Cash Protection (£1.003 million), that is £296,000

6.11.4 The Schools Forum was advised by the Chief Finance Officer on 14th December 2015 of the schools' budget reduction requirement of £296,000 for 2016/17. This requirement was agreed by the Schools Forum as its Task and Finish Group had been tasked with identifying opportunities for budget reductions throughout the 2015/16 financial year.

6.12 Corporate Risk Fund

6.12.1 As indicated previously the former Outcome Agreement Grant of £614,000 was transferred into the revenue settlement for 2016/17 instead of held outside the settlement as a specific grant as in previous years.

6.12.2 Previously Merthyr Tydfil excluded the Outcome Agreement Grant from its budget setting procedures and instead utilised the grant to assist with specific projects or expenditure deemed to be adding value and meeting corporate priorities.

6.12.3 The Budget Board in considering the monthly revenue budget monitoring reports throughout 2015/16 proposed the creation of a contingency or innovation fund to support the following requirements:

- Addressing unavoidable in-year budget pressures
- Required investment in innovative projects with longer term benefits

6.12.4 Council of 2nd March 2016 approved the creation of a 'Corporate Risk Fund' with an annual budget commitment of £600,000 for the period 2016/17 to 2019/20.

6.13 Flexible Use of Capital Receipts

6.13.1 Following the Chancellor of Exchequer's Spending Review announcement on 25th November 2015, allowing English Local Authorities additional flexibility to finance revenue costs of reform projects through capital receipts, the Welsh Government's Minister for Public Services notified Welsh Local Authorities on 9th February 2016 of his intention to allow Welsh Local Authorities the same flexibility.

6.13.2 Under sections 16(2) (b) and 20 of the Local Government Act 2003, Local Authorities in Wales may treat as capital expenditure and finance through 100% of capital receipts from the sale of fixed assets for the same accounting period, in line with the following criteria:

- Expenditure incurred on the revenue costs of projects designed to reduce future revenue costs and/or transform service delivery
- Expenditure properly incurred during the financial years ending on 31st March 2017, 31st March 2018 and 31st March 2019

6.13.3 Based on current and projected future fixed asset sales, the Council has an estimated £750,000 new capital receipts available per annum. This flexibility will allow the Council to capitalise revenue costs of employee severance resulting from the transformation agenda thus alleviating the financial liability on the revenue budget.

6.14 In addition to paragraphs 6.6 to 6.13 it is important to note that the MTFP for 2016/17 to 2019/20 is compiled on the principles and assumptions outlined as follows:

- Service Delivery – based on the 2016/17 Budget service delivery approved by Council on 2nd March 2016 whilst recognising the requirement for further budget reductions of £4.079 million through the Council’s Transformation programme

- Salary Incremental Progression – included where appropriate together with Job Evaluation implications
- Reserves – no contribution from either general or earmarked reserves proposed for the period of the MTFP 2016/17 to 2019/20
- Corporate Vacancy Factor – anticipated in-year corporate employee cost savings of £200,000 per annum arising from the timing between a post becoming vacant and being appointed, budgeted for 2016/17 to 2017/18 and reduced to £100,000 for 2018/19 to 2019/20
- Inflation – allowance for unavoidable contractual uplifts (including energy costs) where appropriate with no increase for general inflation
- Collection Fund – a contribution of £600,000 per annum is budgeted resulting from projected surplus on the Collection Fund for 2016/17 to 2019/20

6.15 The projections will be continually subject to amendment based on a variety of changing circumstances, for example:

- School protection implications
- Updated pupil numbers
- Revised corporate priorities
- Results of integration reviews
- Cessation of grant funding
- New demands and initiatives
- Central Government legislation and changing policy
- Invest to save/improve agenda
- Development of further partnership working, collaborative working and shared services objectives
- Unforeseen emergency considerations
- Changes in interest rates
- Changes to income profiles
- Demographic changes
- Organisational restructure
- Employee cost reductions including severance costs
- Capital investment decisions
- Projected current year budget overspends/underspends
- **Corporate Transformational Programme**

6.16 **Consultation**

6.16.1 A public consultation exercise was undertaken across the County Borough during January and February 2016 in relation to the Council’s Priorities and Budget for 2016/17 as engagement with citizens is an essential part of the budget setting process.

6.16.2 The aim of the consultation was to engage with a variety of citizens across the County Borough to gauge opinions on the delivery of services, priority services and potential council tax increase. The results were reported to Cabinet on 16th March 2016 and are included as Appendix 6 to this MTFP. In addition the outcomes in relation to potential Council Tax increase were reported to Council on 2nd March 2016 as part of the formal Budget and Council Tax setting process.

6.16.3 To ensure as wide a response as possible, the consultation process undertook a varied range of methodologies including an online survey, paper copies, road shows, social media and emails.

6.16.4 Respondents to the consultation were in agreement with the Council's corporate priorities and to an increase in council tax to maintain as many services as possible.

6.16.5 Under the equality duty (set out in the Equality Act 2010), public authorities must have 'due regard' to the need to eliminate unlawful discrimination, harassment and victimisation as well as to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

6.17 **<u>Sensitivity Analysis</u>**

6.17.1 The development of sensitivity analyses techniques further prepares the Council for changing circumstances and its impact on the projected budget deficits for the medium term. This allows the Council to consider 'worst case' and 'best case' scenarios to complement the current 'most likely' scenario. The reported indicative budget deficits for years 2 to 4 of the MTFP, as disclosed in Tables 2 and 4, amended to reflect £4.079 million budget reductions to be identified for 2016/17, are as follows:

- 2017/18 – £5.938 million (£10.017 million less £4.079 million)
- 2018/19 – £11.224 million (£15.303 million less £4.079 million)
- 2019/20 – £16.223 million (£20.302 million less £4.079 million)

The sensitivity of changing circumstances and/or revised assumptions on the reported required further budget reductions are considered in the following selected scenarios.

6.17.2 Council Tax Increase

The current MTFP for 2016/17 to 2019/20 is based on a Council Tax increase per annum of 3.5%, as approved for 2016/17 by Council on 2nd March 2016.

An increase or decrease in the indicative Council Tax increase for 2017/18 of 1% to 4.5% or 2.5%, maintained for 2018/19 and 2019/20, would lead to revised budget deficits for the 3 year period as outlined in Table 10.

Table 10 – Impact of Revised Council Tax Increases

Financial Year	Budget Impact £'000	Indicative Budget Deficit at 3.5% £'000	Revised Budget Deficit at 2.5% £'000	Revised Budget Deficit at 4.5% £'000
2017/18	251	5,938	6,189	5,687
2018/19	516	11,224	11,740	10,708
2019/20	798	16,223	17,021	15,425

It is evident from Table 10 there is an increase in revenue for the Council from a further 1% increase in Council Tax of £251,000 for 2017/18, £516,000 for 2018/19 and £798,000 for 2019/20.

It should be noted that Local Authorities in Wales are subject to "capping" by the Welsh Government whereby council tax increases are limited to a maximum of 5% per annum. In addition the Council has to consider the impact of a further increase in Council Tax on the increase in demand from residents for support with council tax payments through the Council Tax Reduction Scheme.

6.17.3 Welsh Government Funding

Further required budget reductions for 2017/18 to 2019/20 are based on estimated funding reductions of 3.57%, 4.07% and 4.50% respectively. It is recognised that owing to continued Central Government financial austerity measures, the Council's Aggregate External Funding for 2017/18 to 2019/20 may even be less than that budgeted. Table 11 explores the implications of revenue settlement reductions of 4.5% for 2017/18 and 2018/19 as a "worst case" scenario.

Table 11 – Impact of Further WG Funding Reductions

Financial Year	Budgeted AEF %	Indicative Budget Deficit £'000	Potential Revised AEF %	Reduced Finance £'000	Revised Budget Deficit £'000
2017/18	-3.57	5,938	-4.5	829	6,767
2018/19	-4.07	11,224	-4.5	1,162	12,386
2019/20	-4.50	16,223	-4.5	1,110	17,333

It is evident from Table 11 that a -4.5% revenue settlement would have a significant impact on the reported indicative budget deficits for 2017/18 to 2019/20.

6.18 Corporate Budget Strategy

6.18.1 The immediate Council Budget Strategy is focused on identification of the required circa £10 million budget reductions for the 2 year period 2016/17 to 2017/18, through the Council's Transformational Change Programme.

6.18.2 The Council's Transformational Programme is expected to realise £11.3 million of budget reductions over the 2 year period 2016/17 to 2017/18 whilst delivering better, more efficient services to the customer under the "better for less" concept. The Transformational Change Programme incorporates the following work streams:

- Customer Offering
- Back Office Administrative Support
- Strategic Support Services
- Procurement
- Income and Service Cost Recovery
- Outcome Focused Redesign

As approved by Cabinet on 21st October 2015, PricewaterhouseCoopers (PwC) as the Council's Strategic Partner is leading on the Customer Offering and Procurement work streams.

6.18.3 Progress against each work stream in addressing the immediate objective of identifying budget reductions of £4.079 million for 2016/17 is ongoing and is considered in paragraphs 6.18.4 to 6.18.8.

6.18.4 The Customer Offering work stream has the following characteristics and objectives:

- The development and implementation of a customer strategy which includes a clear approach to channel shift. A strategy based on genuine customer insight to exploit existing lower cost processes will enable a more tailored customer approach and a richer experience.
- Increased use and focus of the Customer Contact Centre to limit enquiries being passed to higher cost staff within service areas. The Contact Centre should be equipped to deal with the majority of queries.
- An improved digital offering including a website that is transactional, automated, proactive and mobile friendly, encouraging self-service. This will reduce the volume of face-to-face and telephone enquiries.
- The implementation of strategic technology where appropriate and cost-viable.
- Better use of data analytics and reporting to provide a consistent Council wide view of the customer that enables the deployment of preventative services rather than more costly reactive services.

The business case produced by the Council's Strategic Partner, PwC, estimates gross recurring savings of **£1.6 million** per annum**,** with a reduction of 50.5 full time equivalent employees. This excludes Social Care which is subject to a separate review within the Procurement work stream.

6.18.5 The <u>Back Office Administrative and Strategic Support Services</u> work streams have the following characteristics and objectives:

- Review and restructure provision of both back office and strategic support services
- Identify where employees are completing similar activities providing the opportunity to share best practice
- Clearly defined roles will provide a level of flexibility within the workforce enabling better deployment of resources to cover during periods of absence
- Strengthening the areas of specialism and clearly defining all roles and responsibilities provides employees the opportunity to focus on their areas of expertise, driving consistency and best practice
- Recognising employee skills means they will be fully optimised and deployed where the strategic need is greatest

To date, in reconfiguring administrative and strategic support services in line with the Council's 'Operating Model Design', opportunities in respect of Voluntary Redundancy, Voluntary Early Retirement and the deletion of vacant posts have been identified and realised. Further opportunities are currently being explored and business cases developed, the first of which presented to Cabinet on 24th February 2016. It is anticipated that budget reductions of circa **£300,000** will be realised in 2016/17 from these two work streams.

6.18.6 The Procurement work stream has the following characteristics and objectives:

- The development and implementation of a procurement strategy that aligns with the corporate strategy and wider business. The Procurement Strategy was approved by Council on 27th January 2016.
- Focus on category management developing capability and a robust approach. Initiated by a detailed review of current third party spend and a rationalisation of the supplier base.
- Standardisation of processes and enforcement of compliance to eliminate the culture of off-contract spend.
- Increased use of e-sourcing and e-procurement solutions to reduce the administrative burden of procurement
- Detailed review of the opportunities for integration with the Finance function and its processes including a review of the current Purchase to Pay system and analysis of alternatives that may be better integrated, such as the existing Financial Management System.

To date opportunities equating to budget reductions of circa **£2 million** have been identified encompassing fleet management, waste, transport, agency staff, buildings facilities management, grounds maintenance and information technology. A separate exercise has been commissioned, with PwC currently undertaking a comprehensive review of Social Care strategic commissioning and contracting.

6.18.7 The Income and Service Cost Recovery work stream has the following characteristics and objectives:

- Development and implementation of an Income Strategy agreeing a Council wide approach to income management. This includes developing an income management policy and principles and an approach to calculating service cost recovery.
- A review of all current fees and charges, benchmarking against other local authorities and ensuring cost recovery opportunities are being realised.
- Identification of new opportunities for income generation.

A detailed report has been prepared for the income and service cost recovery work stream which is currently in the process of review before being presented to Cabinet. New budget reduction opportunities, from increased income generation and/or service cost reduction, of between **£778,000 and £1.295 million** have been identified for 2016/17. In addition, an Income Management and Cost Recovery Policy has been developed, supported by defined principles.

6.18.8 The Outcome Focused Redesign work stream considers the outcomes the Council is aiming to achieve and the most appropriate method of delivery. It defines the Council's "to be" state and underpins the whole Transformational Change Programme. This exercise is fundamental in ensuring the circa £20 million projected budget deficit for the 4 year period of the MTFP is addressed and that decisions are linked to the Council's strategic ambitions.

Outcome focused redesign of all Council services will enable the 'Operating Model Design', presented to Cabinet on 7th October 2015, to be realised. Initial Business Cases relating to this work stream were presented to Council on 2nd December 2015 and 27th January 2016. Budget reductions of circa **£1 million** are anticipated for 2016/17.

6.18.9 Anticipated budget reductions arising from the Council approved change management work streams are summarised in Table 12, and indicate 2016/17 minimum savings of £4.259 million.

Table 12 – Estimated Budget Reductions 2016/17

Work stream	Estimated Full Year Saving £'000	Estimated 2016/17 Saving** £'000
Customer Offering	1,600	1,200
Back Office/Strategic Support	300	225
Procurement	2,000	1,500
Income and Service Cost Recovery	778	584
Outcome Focused Redesign	1,000	750
Total	**5,678**	**4,259**

** assumes savings effective from 1st July 2016 owing to potential delays resulting from public, employee and union consultation

Delivery of the Transformational Change Programme and the anticipated budget reductions will be monitored throughout 2016/17 by the Change Management Board supported by the Change Management Steering Group.

7.0 Capital Programme

7.1 The proposed Capital Programme for the 4 year period 2016/17 to 2019/20 is outlined in Appendix 7 and indicates a total capital commitment of £30.542 million over the 4 year period predominantly financed by the Council.

7.2 The Council currently has a number of medium to long term capital commitments linked to its Corporate Priorities and Corporate Risk Register and supported by its Asset Management Plans. These are described as follows:

7.2.1 21st Century Schools Programme

The 21st Century Schools Programme is the WG's current initiative to support capital investment in schools, requiring 50% match funding from Local Authorities. It supports the Council's educational strategic aims for providing teaching and learning in energy efficient and sustainable schools fit for the 21st Century. The Council's first tranche 'Band A' projects are as follows:

Afon Taf High School
Refurbishment of the Afon Taf High School at a projected cost of £12 million in order to:

- Maximise the opportunities for school improvement
- Improve the fabric of the building since the school is in the poorest condition of all the Authorities secondary schools
- Reduce the levels of significant surplus places

New Ysgol Y Graig Primary School
This project entails the provision of a new primary school replacing the current Ysgol Y Graig Primary School and the former Trefechan Nursery School and is a long standing ambition of the Authority since the current primary school is in poor condition and is unable to accommodate the nursery within the main building. The new school is to be built on the site of the former Vaynor and Penderyn High school at a project cost of £7 million.

The revised expenditure and financing profile for the Band A 21st Century Schools Programme is outlined in Appendix 8 and indicates a total project cost of £19 million.

7.2.2 **Physical Regeneration Programme**

This involves physical regeneration projects within the Town Centre and surrounding areas within the County Borough. Appendix 9 summarises the expenditure and financing profile for the proposed projects where it is evident that the majority of the potential total project cost (from 2016/17) of £70.563 million is funded by external providers (97%).

7.2.3 **Riverside**

Appendix 10 outlines the Riverside/Riverside Phase 3 Taff and Crescent Street Programmes. The works consist of infrastructure works at Merthyr Vale and a programme of work to support acquisitions in Taff and Crescent Streets and works at the Civic Amenity Site. The Authority was successful in securing £6.700 million of funding in the 2014/15 financial year to support both projects, requiring a commitment from Merthyr Tydfil County Borough Council to complete the acquisition programme in Taff and Crescent Streets by the 2018/19 financial year.

7.2.4 **Schools Feasibility Studies**

This relates to scoping works in respect of several schools to assess the future capital programme requirement.

7.2.5 **Cyfarthfa High School Roof Replacement**

This relates to replacement roof works since the school has experienced water ingress into classroom areas resulting from roof damage.

7.2.6 **Ysgol Rhyd Y Grug Primary School Roof Replacement**

This relates to the replacement of the school's original flat roof from the 1960's which is currently in extremely poor condition and placing at risk continued education provision from this site.

7.2.7 **Disabled Facilities Grants**

This relates to a mandatory demand-led annual commitment provided for improvement works to disabled people's homes.

7.2.8 **Highways Structural Maintenance**

This relates to an ongoing commitment to support continued investment in the Council's highway asset with reference to the Council's Highways Asset Management Plan.

7.2.9 **Replacement Expansion Joints, Fiddlers Elbow**

Responding to the deterioration of an expansion joint if not addressed may eventually collapse resulting in a closure of the East Bound carriageway of the bridge. This is a joint project between Merthyr Tydfil County Borough Council and Rhondda Cynon Taf County Borough Council with both parties making an equal contribution to the project costs. Appendix 6 details the Merthyr Tydfil County Borough Council Contribution.

7.2.10 **Brandy Bridge, Abercanaid**

Responding to a recent Principal Inspection of the Bridge which identified a number of serious defects which left unresolved could result in the possible collapse of the bridge.

7.2.11 **Road Slippage South of Pontygwaith**

A capital finance allocation is required to undertake the physical works to address the recent road slippage South of Pontygwaith.

7.2.12 **Corporate Maintenance**

This relates to a commitment for general capital maintenance and improvement projects including emergency projects and statutory compliance.

7.2.13 **Land Purchase**

This relates to a capital finance allocation for purchase of land considered key to the Council's future strategic plans.

7.2.14 **Depot Review**

Capital finance allocations are included within the 2016/17 and 2017/18 financial years as part of the review of current and future Depot requirements for the Council.

7.2.15 **Investment Costs**

This relates to the estimated investment costs anticipated to realise budget reductions through the Council's Transformational Programme.

7.2.16 **Redundancy costs**

The Council has the potential flexibility to utilise capital receipts for the period 2016/17 to 2018/19 to finance the costs of service reform. This enables the Council to utilise capital receipts (proceeds from the sale of assets) to finance the cost of redundancies thus alleviating the financial burden on the revenue budget. The value of revenue expenditure eligible for capitalisation in any given financial year is restricted to the amount of new capital receipts realised in that same financial year. Appendix 6 details an estimated amount of £750,000 new capital receipts available per annum to be used to finance redundancy costs.

7.2.17 **<u>Costs of Supporting Capital Expenditure</u>**

This relates to professional costs contributing to the implementation of capital projects.

7.2.18 **<u>Unallocated</u>**

For 2018/19 and 2019/20 there remains unallocated monies within the Capital Programme which will be subject to further reports to Cabinet in due course.

7.3 All projects included in the proposed Capital Programme have been linked to Corporate Priorities and/or the Corporate Risk Register and have been risked assessed against the Council's approved '5 x 5' scoring matrix of 'impact of risk' against 'likelihood of risk'.

7.4 Projects within the Capital Programme have been linked to specific corporate priority areas to demonstrate the proportion of capital resources allocated to the Council's corporate priorities for improvement. As with revenue expenditure the category 'Core Business As Usual' denotes that net expenditure not attributable to any specific priority area. The position over the life of the Capital Programme is summarised in Table 13.

<u>Table 13 – Capital Programme Linked to Corporate Priority Areas</u>

Priority Area	Code	Budget £'000	Budget %
Raising Standards of Attainment	RSA	8,869	29
Employability	E	0	0
Economic Development	ED	2,006	7
Active Lifestyles	AL	0	0
Promoting Independence	PI	2,550	8
Meeting the Needs of Vulnerable Children	MNVC	0	0
A Sustainable Environment	SE	1,484	5
Core Business As Usual	CBAU	10,485	34
Unallocated	-	5,148	17
Total		**30,542**	**100**

7.5 From Table 13 it is evident that the most significant proportion of the Council's "core" capital funding is allocated to the corporate improvement priority of 'Raising Standards of Attainment' (29%) and 'Core Business As Usual' (34%), whilst 17% remains 'Unallocated'. It should be noted that although Table 13 excludes capital expenditure supported by external grants, the following is evident from Appendices 8 to 9:

- Through the 21st Century Schools Programme (Appendix 7), further external funding of £3.194 million supports the corporate improvement priority of 'Raising Standards of Attainment'
- Through the Regeneration Programme (Appendix 8), funding of £70.563 million supports the corporate improvement priority of 'Economic Development'

7.6 Capital investment decisions will significantly impact on the net revenue expenditure of the Council especially in terms of capital financing costs (repayment of borrowing to finance expenditure on capital projects) and future running and maintenance costs of new fixed assets. Capital expenditure financed by unsupported borrowing through the Prudential Code framework for Capital Finance included in the period of the Capital Programme equates to £15.429 million.

7.7 It should be noted that unlike supported borrowing through General Capital Funding, the capital financing costs associated with unsupported borrowing is not included within the Council's Revenue Support Grant received from WG. Instead through Prudential Indicators the Council is required to ensure the capital spending plans are affordable, prudent and sustainable.

7.8 Capital option appraisals are required to be formally adopted to assist with decisions involving the allocation of scarce resources to competing projects and/or priorities in establishing the full-life costs of the proposals. Once a capital project is approved the Council is also making a commitment towards the ongoing revenue running costs associated with the asset. The appraisal will take account of both quantitative and qualitative criteria and links to the Council's Asset Management Plan.

7.9 It is recognised that owing to funding restrictions there may be a number of potential significant projects currently not included within the Capital Programme which may result in further urgent requests to Cabinet/Council for capital funding during 2016/17.

7.10 As evident from Figure 2 the Council's capital resources through the WG's General capital Funding (GCF) has marginally increased for 2016/17 by £9,000 (+0.34%) from £2.613 million to £2.622 million. GCF projections assume the 2016/17 allocation will be maintained over the period 2017/18 to 2019/20 of the Capital Programme.

8.0 Treasury Management

8.1 The Council's Treasury Management Policy and Annual Investment Strategy for 2016/17 are appended as Appendix 11. The Prudential Indicators included within the Policy, ensure that the Council's borrowing and investment plans included within the MTFP are affordable, prudent and sustainable.

8.2 Appendix 11 reflects the amendment to the Minimum Revenue Provision as presented to the Council of 23rd March 2016 within the report entitled *"Amendment to the Minimum Revenue Provision Policy".*

8.3 A Treasury Outturn Statement for 2015/16 and a Mid- Year Treasury Statement for 2016/17 will be reported to Council during the 2016/17 financial year.

8.4 If appropriate, revised Prudential Indicators may be reported to Council during 2016/17 in the event of unforeseen circumstances such as greater than projected borrowing or potential breach of borrowing limits.

9.0 Reserves Strategy

9.1 The level of balances at any particular point in time (both earmarked and non-earmarked) will inform decisions in respect of proposed utilisation to either offset budget setting pressures or to increase 'one-off' expenditure on corporate priorities. It is acknowledged that the continuous use of balances to avoid difficult budget decisions is both unwise and unsustainable.

9.2 The following initiatives were introduced for the 2014/15 financial year to enhance the budget monitoring process in supporting effective financial management and increased accountability:

9.2.1 **The Change Management Board** (supported by the Change Management Steering Group) monitors all Medium Term Financial Plan budget proposals to ensure deliverability of all projects within stated timescales.

9.2.2 **The Budget Board** complements both the Change Management Board and effective budget accountability by rigorous scrutiny of monthly budget monitoring statements followed by robust challenging of responsible managers.

9.3 The effectiveness of both the Change Management Board and Budget Board can be demonstrated in the projected budget surplus outturn for 2015/16 of £214,000 as indicated in Table 1, paragraph 5.5.2. This follows the reported audited budget surplus outturn for 2014/15 of £114,000 demonstrating the financial sustainability of the Council's plans.

9.4 In demonstrating the Council's reserves strategy each type of reserve is addressed individually in paragraphs 9.5 to 9.8.

9.5 General Reserves

9.5.1 General Reserves consist of un-hypothecated reserves enabling the Council to respond to unforeseen or unexpected financial liabilities.

9.5.2 The overarching aim of the Council's Budget Board, created to embed a culture of increased budget accountability throughout all Council services, is as follows:

"To maintain an adequate, healthy General Reserves balance of between 3.5% and 4% of the Council's annual budgeted Net Revenue Expenditure in ensuring the Council continues to remain financially viable."

9.5.3 Under Part II of the Local Government Act 2003, the Chief Finance Officer is required to report upon the adequacy of general reserves (most recent report to Full Council meeting 2nd March 2016). As at 1st April 2016, total General Reserves is estimated to be £4.739 million which is considered adequate for Merthyr Tydfil County Borough Council, equating to circa 4% of the net revenue budget.

9.5.4 It is proposed that General Reserves will remain at circa £4.7 million for the duration of the MTFP 2016/17 to 2019/20. This would allow the Council the flexibility to adequately respond to the risk of potential budget overspends in volatile service budgets whilst addressing the financial implications of demographic pressures. It is not considered prudent for the Council to utilise general reserves to support its future revenue budget plans owing to the unacceptable risk and exposure to the Council of an inadequate level of reserves to address potential future revenue budget overspends. In addition the level and adequacy of Council general reserves is also subject to scrutiny by external regulators.

9.6 Insurance Fund

9.6.1 The Council maintains an Insurance Fund to enable it to respond to any known or potential future insurance liability with the balance reviewed annually by its Insurance Advisor Marsh Limited.

9.6.2 The audited balance at 31st March 2015 of £2.852 million includes a provision for £1.185 million reflecting the Authority's outstanding insurance claims obligations at 31st March 2015. Reduced service contributions to the Insurance Fund are anticipated from 1st April 2016, as reflected in Reference 11 to Appendix 5.

9.7 Local Management of Schools

9.7.1 This relates to balances held by schools in following the Council's Local Management of Schools scheme under Welsh Government regulations. The level and appropriateness of each school's balance is challenged and scrutinised by the Council's Cabinet, Schools Scrutiny Committee, Schools Forum and Budget Board.

9.7.2 Schools Balances reduced by 86% for the period 31st March 2013 to 31st March 2015, as follows:

- 31st March 2013 – £1.456 million
- 31st March 2014 – £358,000
- 31st March 2015 – £206,000

This is owing to:

- the application of the statutory threshold for School Balances of a maximum £100,000 for Secondary and Special Schools and £50,000 for Nursery and Primary Schools governed by the School Funding (Wales) Regulations 2010; and
- the development of more robust schools medium term financial planning

9.7.3 Owing to the unacceptably low school balances, Cabinet on 29th July 2015 approved a financial monitoring policy for schools introducing a more robust scrutiny and monitoring framework undertaken by both schools and the Local Education Authority. Projected balances of £403,000 anticipated for 31st March 2016 demonstrate the success of the recovery measures in ensuring a more healthy balance position is sustained for the foreseeable future.

9.8 Other Earmarked Reserves

9.8.1 Other Earmarked Reserves relate to balances held for specific purposes across the range of Council services. They are closely monitored and reviewed annually by the Council's Chief Finance Officer.

9.8.2 Balances held for specific purposes reduced from £5.243 million at 31st March 2013 to £3.476 million at 31st March 2014, followed by an increase to £5.972 million at 31st March 2015. This increase of £2.496 million during 2014/15 results from additional appropriations to earmarked reserves together with re-classification to reserves of items previously classified as creditors.

9.8.3 Through continuous monitoring and review, every realistic opportunity to release earmarked reserves to assist with future budget planning is explored. A detailed review of earmarked reserves is to be undertaken during the 2015/16 annual accounts closure process. It should be noted that increased earmarked reserves result from prudent budget management with the Council recognising the anticipated future financial liabilities resulting from the Transformation Programme agenda, including projected investment costs and employee severance costs.

9.9 Members' engagement in scrutinising the level of reserves held by the Council is ensured through the following processes, with the main focus being in respect of the Council Fund (General Reserves) and Schools Balances:

- Cabinet Members are appraised of reserve balances during the budget setting process through Cabinet Budget Workshops and subsequent formal Cabinet meetings and provide effective challenge where appropriate
- The Budget Board, consisting of the Leader of the Council and Deputy Leader of the Council, considers the adequacy of reserves and balances through budget monitoring updates
- Cabinet considers the impact of budget monitoring reports on the level of reserves
- Members of the Scrutiny Committees and Audit Committee, encompassing all Council Members in at least one committee, challenge the use and adequacy of reserves where appropriate
- Schools Forum considers the adequacy of schools balances and provides effective challenge
- The adequacy of General Reserves is reported to the Full Council meeting tasked with approval of the annual Budget and is subject to question

Appendix 1

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Corporate Summary

Description	**Indicative Budget 2016/17 £'000**	**Indicative Budget 2017/18 £'000**	**Indicative Budget 2018/19 £'000**	**Indicative Budget 2019/20 £'000**
People and Performance Directorate	73,861	75,830	77,572	78,913
Place and Transformation Directorate	21,951	22,740	23,427	24,048
Corporate Costs	22,546	23,190	23,358	23,622
Net Employee Severance Costs/Slippage	1,222	1,210	1,206	1,206
Non General Fund Allocations	-976	-835	-835	-835
Discretionary Non Domestic Rate Relief	20	20	20	20
Collection Fund Surplus	-600	-600	-600	-600
Corporate Vacancy Factor	-200	-200	-100	-100
Corporate Risk Fund	600	600	600	600
Contribution from Biffa Profit Sharing Scheme	-100	0	0	0
Net Expenditure	**118,324**	**121,955**	**124,648**	**126,874**
Available Finance	-114,245	-111,938	-109,345	-106,572
Projected Budget Deficit	**4,079**	**10,017**	**15,303**	**20,302**
Change Management Programme	-4,079	-10,017	-15,303	-20,302
Final Budget Deficit	**0**	**0**	**0**	**0**

In Appendices 2 to 4 the following Priority Area codes denote the Corporate Improvement Priorities as set out in the Corporate Plan:

RSA Raising Standards of Attainment
E Employability
ED Economic Development
AL Active Lifestyles
PI Promoting Independence
MNVC Meeting the Needs of Vulnerable Children
SE A Sustainable Environment
CBAU Core Business As Usual (not attributable to any specific priority area)

Appendix 2

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
People and Performance Directorate

Description	Indicative Budget 2016/17 £'000	Indicative Budget 2017/18 £'000	Indicative Budget 2018/19 £'000	Indicative Budget 2019/20 £'000	Corporate Priority Area
Social Regeneration Management					
Social Regeneration Management	137	137	141	145	CBAU
Performance	347	358	368	378	CBAU
Early Years and Youth					
Youth Service	531	549	561	576	RSA, E, MNVC
Sufficiency Assessments	24	24	24	24	E
Transition into Employment	24	25	28	31	E
Early Years	186	188	190	192	MNVC
Integrated Children's Centre	87	88	90	91	RSA
Participation and Youth Support Services	202	207	212	217	RSA, E, AL, MNVC
Community Development					
Adult Community Learning (inc. Venture Out)	40	41	42	43	E, AL, PI
Vulnerable Families	49	50	51	52	MNVC
Family & Community Services	46	46	46	46	MNVC
Employability & Worklessness	302	309	315	321	E
Carers Network	223	223	223	223	PI
Business Services					
Compliments and Complaints	82	86	89	91	CBAU
Business Services Teams	339	362	377	390	CBAU
Daytime Activities					
Outside/Community Based Daytime Activities	227	238	243	249	PI
Day Centres	990	1,040	1,081	1,117	PI
Transport Services	247	263	263	263	PI
Directorate Services & Recharges					
Directorate Services and Recharges	172	151	158	162	CBAU
Receivership	21	21	21	21	PI
Repairs & Maintenance	100	185	185	185	CBAU
Office Accommodation	185	100	100	100	CBAU

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
People and Performance Directorate

Description	Net Budget 2016/17 £'000	Net Budget 2017/18 £'000	Net Budget 2018/19 £'000	Net Budget 2019/20 £'000	Corporate Priority Area
Adult Services					
Adult Services Management	222	239	249	255	CBAU
ISS Management	56	60	62	64	CBAU
Initial Support Services (Initial Response)	858	926	953	981	PI
Community Occupational Therapy	551	582	594	604	PI
Social Work Team	1,145	1,227	1,275	1,315	PI
Accommodation (HFE's)	1,758	1,933	2,014	2,102	PI
Supported Housing Services					
Supporting People	103	109	113	115	PI
Older Persons Strategy	50	54	56	58	PI
Accommodation (Group Homes)	1,285	1,390	1,433	1,489	PI
Safeguarding, Quality & Performance					
Social Care Workforce Development	140	146	152	157	CBAU
Contract Compliance and Regulation	104	111	114	118	PI,MNVC
Safeguarding	551	582	600	614	PI,MNVC
Independent Service Provision					
Supported Placements	2,224	2,565	2,871	3,123	PI
Independent Domiciliary Care	1,939	1,998	2,158	2,164	PI
Direct Payments	929	951	998	1,051	PI
Independent Commissioned Day Services	123	123	126	129	PI
Independent Residential Establishments (IRE's)	4,701	4,836	5,009	5,187	PI
Extra Care Facility	255	261	268	274	PI
Social Care Commissioned Services					
Social Care Commissioned Services	37	37	37	37	PI
Autism Strategy	40	40	40	40	PI
Telecare / Telehealth Services	38	38	38	38	PI

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
People and Performance Directorate

Description	Net Budget 2016/17 £'000	Net Budget 2017/18 £'000	Net Budget 2018/19 £'000	Net Budget 2019/20 £'000	Corporate Priority Area
Children's Services					
Children with Disabilities	843	896	942	976	MNVC
Looked After Children's Services	3,326	3,396	3,465	3,531	MNVC
Fostering and Adoption Services	2,444	2,541	2,648	2,686	MNVC
Intake & Family Support Services	2,698	2,896	2,969	3,031	MNVC
Children's Social Services	220	238	249	256	MNVC
Youth Offending Team	343	358	358	358	MNVC
Duty Services	69	89	89	89	MNVC
Individual Schools Budget					
Individual Schools Budget (ISB)	37,394	37,610	37,827	38,046	RSA
Ynysowen Speech & Language	77	78	79	80	RSA
Partial Hearing Classes	158	160	162	164	RSA
Education Improvement Grant	243	250	251	254	RSA
Other School Expenditure					
Maternity Costs	39	40	40	40	CBAU
Facility Time	15	15	15	15	CBAU
Building Maintenance	80	80	80	80	CBAU
Retirement / Severance	295	295	295	295	CBAU
Special Educational Needs					
Learning Support Assistants	671	689	707	724	RSA
Behavioural Support	167	170	171	173	RSA
Speech Therapists	48	48	48	48	RSA
Special Tuition	141	144	146	149	RSA
Special Needs Advisory Teachers	144	144	146	147	RSA
Special Recoupment	357	357	357	357	RSA
Psychological Services	335	339	345	350	RSA
School Counselling	83	84	85	85	RSA
SNAP Cymru	5	5	5	5	RSA
ALN Training	15	15	15	15	RSA

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
People and Performance Directorate

Description	Net Budget 2016/17 £'000	Net Budget 2017/18 £'000	Net Budget 2018/19 £'000	Net Budget 2019/20 £'000	Corporate Priority Area
School Meals and Milk					
School Meals	10	11	11	11	CBAU
School Milk	0	0	0	0	CBAU
Awards and Music	13	13	13	13	RSA
Strategic Management and Support					
Strategic Management	308	314	416	420	CBAU
Secretariat	1	0	0	0	CBAU
School Support Services	444	446	454	461	CBAU
School Improvement					
Strategic Education Projects	116	116	116	116	RSA
Schools Data Management Systems	60	60	60	60	CBAU
Joint Education Service	268	273	279	285	RSA
Other Education	35	35	35	35	CBAU
Additional Learning Needs Transport	726	726	726	726	MNVC
Net Expenditure	**73,861**	**75,830**	**77,572**	**78,913**	

Appendix 3

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Place and Transformation Directorate

Description	**Indicative Budget 2016/17 £'000**	**Indicative Budget 2017/18 £'000**	**Indicative Budget 2018/19 £'000**	**Indicative Budget 2019/20 £'000**	**Corporate Priority Area**
Director					
ICT Computers	1,497	1,546	1,585	1,621	CBAU
Schools Support Team	0	0	0	0	CBAU
ICT Printing	182	189	195	201	CBAU
Business Change	321	342	360	377	CBAU
Corporate Communications	122	125	129	132	CBAU
Emergency Planning	99	103	105	108	CBAU
Corporate Services					
Risk Management	77	82	85	88	CBAU
Partnerships	150	156	160	165	CBAU
Service Support and Development	927	969	1,015	1,051	CBAU
Executive Support	225	235	242	250	CBAU
CCTV	107	111	114	117	CBAU
Peace of Mind	18	27	34	43	PI
Audit	226	234	241	248	CBAU
Counter Fraud	98	103	107	111	CBAU
Benefits	241	326	349	364	CBAU
Revenues	10	37	61	86	CBAU
Parking Services	-249	-239	-233	-226	CBAU
Leisure Contribution from Reserve	-23	0	0	0	CBAU
Merthyr Tydfil Leisure Trust	2,016	2,016	2,016	2,016	AL
Leisure Trust SLA's	438	438	438	438	CBAU
Retained Leisure Services	82	85	87	91	CBAU
Public Protection and Housing					
Housing Renovation Grants	55	59	62	65	SE
Miscellaneous Rentals	-48	-48	-48	-48	SE
Housing Services (RSL's Advice & Strategy)	382	389	400	411	SE
Community Safety	111	114	117	120	SE
Trading Standards General	283	293	304	314	CBAU
Licensing	52	58	62	66	CBAU
Public Health & Health Education	43	46	48	49	CBAU
Occupational Health	137	142	147	151	CBAU
Private Sector Housing	68	71	73	75	SE
Pollution Control	34	35	36	37	SE
Nuisances	27	28	29	30	SE
Pest Control	18	19	20	21	CBAU
Dog Warden Scheme	47	48	48	49	CBAU
Animal Impounding	1	1	1	1	CBAU
Food Safety & Prevention of Infectious Diseases	166	172	177	183	CBAU
Default Works	0	0	0	0	SE
Registrars	86	92	97	102	CBAU
Disabled Facilities Grants Fees	-100	-100	0	0	PI
Transport	1,483	1,473	1,498	1,523	RSA,CBAU

Appendix 3 (continued)

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Place and Transformation Directorate

Description	**Net Budget 2016/17 £'000**	**Net Budget 2017/18 £'000**	**Net Budget 2018/19 £'000**	**Net Budget 2019/20 £'000**	**Corporate Priority Area**
Neighbourhood Services					
Bereavement Services	-72	-67	-64	-61	CBAU
Grounds Maintenance	1,157	1,200	1,221	1,255	SE
Street Cleansing	851	876	897	919	SE
Fleet Management	710	722	738	754	CBAU
Refuse and Waste					
Waste Disposal	847	811	807	803	SE
Civic Amenities	1,113	1,137	1,164	1,193	SE
Recycling	181	187	193	199	SE
Refuse Collection	897	970	996	1,021	SE
Sustainable Waste Management Grant	449	528	564	604	SE
Highways and Engineering					
Highways Administration	645	666	684	703	CBAU
Roads Maintenance and Repair	441	448	456	445	CBAU
Grass Maintenance	36	36	36	36	SE
Gullies and Drainage	69	72	73	75	SE
Street Furniture / Infrastructure	74	77	80	83	SE
MTCBC Winter Maintenance	150	153	154	156	CBAU
External Works/Highways Reconfiguration	-633	-625	-618	-611	CBAU
Street Lighting	346	357	367	378	SE
Bridge Maintenance	107	107	107	107	CBAU
Land Drainage	77	78	80	82	SE
Land Reclamation	21	21	21	21	SE
Traffic Management	53	54	55	56	CBAU
Engineering	381	393	398	405	CBAU
Depots	169	172	176	179	CBAU

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Place and Transformation Directorate

Description	Net Budget 2016/17 £'000	Net Budget 2017/18 £'000	Net Budget 2018/19 £'000	Net Budget 2019/20 £'000	Corporate Priority Area
Corporate Property					
Corporate Property and Estates Division	895	866	861	888	CBAU
Glynmil Gipsy Site	1	1	1	1	CBAU
Office Accommodation	854	870	899	915	CBAU
Planning and Countryside					
Planning - Development Control	243	261	279	293	CBAU
Planning - Development Plan	274	317	292	303	SE
Planning - Other	132	138	144	149	CBAU
Building Control	60	65	72	77	CBAU
Community Regeneration					
Economic Development	372	384	397	406	ED
Physical Regeneration	174	180	186	191	ED
Rights of Way	110	113	115	118	ED
Orbit Business Centre	12	0	-6	-10	ED
Tourist Information Centre	3	3	0	0	ED
Finance					
Accountancy	782	806	836	863	CBAU
Insurance	42	44	47	48	CBAU
Creditors	143	150	155	160	CBAU
Procurement	376	392	403	414	CBAU
Net Expenditure	**21,951**	**22,740**	**23,427**	**24,048**	

Appendix 4

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Corporate Costs

Description	Indicative Budget 2016/17 £'000	Indicative Budget 2017/18 £'000	Indicative Budget 2018/19 £'000	Indicative Budget 2019/20 £'000	Corporate Priority Area
Corporate Management - Executive	420	435	448	462	CBAU
Corporate Authority					
Capital Financing Costs	8,359	8,597	8,676	8,748	CBAU
Council Tax Benefit Payments	6,225	-6	-6	-6	CBAU
Rent Allowances	-6	6,325	6,425	6,525	SE
Levies	2,928	2,928	2,928	2,928	CBAU
Contribution to Pensions	306	310	310	310	CBAU
External Audit and Inspection Fees	380	380	380	380	CBAU
Insurances	1,053	1,053	1,053	1,053	CBAU
Provision for Bad Debts	100	100	100	100	CBAU
External Legal Fees	30	30	30	30	CBAU
Grants to Voluntary Organisations	14	14	14	14	CBAU
Subscriptions	100	100	100	100	CBAU
Bank Charges	71	71	71	71	CBAU
News Merthyr/Contact Supplement	24	24	24	24	CBAU
Empty Property NDR Relief	29	30	31	32	CBAU
Translations/Welsh Translations	32	32	32	32	CBAU
Welsh Water Long Term Debt Interest	-20	-15	-11	-7	CBAU
Car Purchase Loans	-2	-2	-1	0	CBAU
Payroll Insurance Income	-5	-5	-5	-5	CBAU
Human Resources					
Human Resources	510	536	558	581	CBAU
Payroll	242	25	26	27	CBAU
Trade Unions	25	252	261	270	CBAU
Legal and Democratic					
Legal	396	411	424	437	CBAU
Democracy	163	170	174	179	CBAU
Register of Electors	34	34	34	34	CBAU
Elections	5	105	5	5	CBAU
Mayor Expenses	42	42	43	43	CBAU
Members Expenses	777	796	814	832	CBAU
Scrutiny	89	93	95	98	CBAU
To be Recharged					
Holiday Pay	125	125	125	125	CBAU
Living Wage Provision	50	150	150	150	CBAU
Energy Levy	50	50	50	50	SE
Net Expenditure	**22,546**	**23,190**	**23,358**	**23,622**	

Appendix 5

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Adjustments from Updated Information

Ref.	Description	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000	Comments
1	Contribution from Employee Terms and Conditions	412	412	Discontinuation of the contribution from employee terms and conditions 2015/16 Budget proposal of mandatory unpaid leave of up to a maximum of 5 days per annum.
2	Nursery Education Provision	350	352	Council revocation of previous decision in respect of nursery education provision owing to ongoing review in determining appropriate sufficient education.
3	Service Prioritisation	-521	-441	Full year savings of 2015/16 in year budget reduction proposals identified by PwC through the service prioritisation exercise.
4	Pay Award Revision	-337	-622	Amended from 2% to 1% per annum as per National Joint Council for Local Government Services
5	National Insurance Contributions	495	0	Single tier state pension from April 2016, originally anticipated from April 2017
6	Application of Living Wage Provision	59	166	Based on Chancellor of the Exchequer’s Allowance of £7.20 per hour for 2016/17 rising to £9 per hour by 2020/21. Also includes an estimate for the application of the “real” living wage of £8.39 per hour for 2016/17.
7	Holiday Pay Estimate	125	125	Response to recent case law in respect of holiday pay for employees regularly working above contracted hours – Cabinet 16th December 2015

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Adjustments from Updated Information

Ref.	Description	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000	Comments
8	Energy Levy	50	50	Climate Change Levy (CCL) in relation to gas and electricity based on Kwh used
9	Bailiff Fees Income	101	93	Reduction in the budgeted bailiff fees and court costs income resulting from fewer cases being taken to court
10	Transport Re-tender of Contracts	-84	-100	Reduction in the cost of home to school transport resulting from procurement exercise – Cabinet 15th July 2015
11	Insurances	-80	-104	Reduction in insurance premium owing to reduced number of claims and revised claims strategy together with a reduction arising from the insurance tender process – Cabinet 13th January 2016
12	Capital Financing Costs	-293	-339	Savings arising from the Salix borrowing in respect of street lighting whereby cost of borrowing repaid over longer term
13	Council Tax Reduction Scheme	-200	-260	Reduction based on current and projected demand and trend analysis
14	Sustainable Waste Management	182	223	Relates to reduction in the recycling income budget to reflect current estimates together with a provision for the treatment of unsorted recyclable materials (from flats)

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Adjustments from Updated Information

Ref.	Description	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000	Comments
15	Refuse	134	174	Relates to additional financial pressures including a provision for an agency worker and vehicle to provide a regular service for the delivery of bins/recycling containers
16	Waste Disposal	-28	-103	Reduction relates to revised waste volume (from 11,750 to 11,880 tonnes) and price (from £107 to £103.15 per tonne)
17	Residual Waste Grant	-288	-288	Welsh Government Grant secured as an incentive for procuring a long term contract for the disposal of waste through an 'Energy from Waste' plant. Joint procurement exercise between Merthyr Tydfil, Rhondda Cynon Taf, Blaenau Gwent and Torfaen with contract commencing 1st April 2016.
18	Single Environment Grant	66	66	Reflects a 6.4% reduction in the all Wales figure for 2016/17. MTCBC grant for 2015/16 equates to £1.031 million.

Appendix 5 (continued)

Medium Term Financial Plan 2016/17 to 2019/20
Council 23 March 2016
Adjustments from Updated Information

Ref.	Description	Budget Reduction 2016/17 £'000	Budget Reduction 2017/18 £'000	Comments
19	Capital Financing Costs	280	606	Projected additional long-term borrowing costs resulting from capital expenditure in respect of potential investment costs associated with the transformational change strategy, purchase of land and buildings and re-profiling of capital funding in the event of a potential capitalisation direction bid for service reform for 2016/17
20	South Wales Fire and Rescue Service levy	22	22	Notified increase in proposed levy for 2016/17 currently out to consultation.
21	Other Adjustments	-94	42	Relates to a number of miscellaneous adjustments revising previous understanding of service commitments resulting from updated information
	Total	**351**	**74**	

Note
All proposals were approved at Council of 02 March 2016

Appendix 6

Outcomes of Consultation Exercises

1. Council Priorities

The citizens of Merthyr Tydfil were shown the council priorities for 2015-16 and were asked if they agreed that each priority should remain a priority for 2016-17.

Raising Standards of Attainment		
This single response question was answered by 166 respondents.		
Response	**Number of Respondents**	**Percentage of Respondents**
Agree	125	75.30%
Disagree	23	13.86%
Unsure	18	10.84%

Promoting Independence		
This single response question was answered by 162 respondents.		
Response	**Number of Respondents**	**Percentage of Respondents**
Agree	111	68.52%
Disagree	33	20.37%
Unsure	18	11.11%

Meeting the needs of vulnerable children		
This single response question was answered by 162 respondents.		
Response	**Number of Respondents**	**Percentage of Respondents**
Agree	120	74.07%
Disagree	20	12.35%
Unsure	22	13.58%

Active Lifestyles		
This single response question was answered by 159 respondents.		
Response	**Number of Respondents**	**Percentage of Respondents**
Agree	84	52.83%
Disagree	51	32.08%
Unsure	24	15.09%

Economic Development		
This single response question was answered by 156 respondents.		
Response	**Number of Respondents**	**Percentage of Respondents**
Agree	105	67.31%
Disagree	33	21.15%
Unsure	18	11.54%

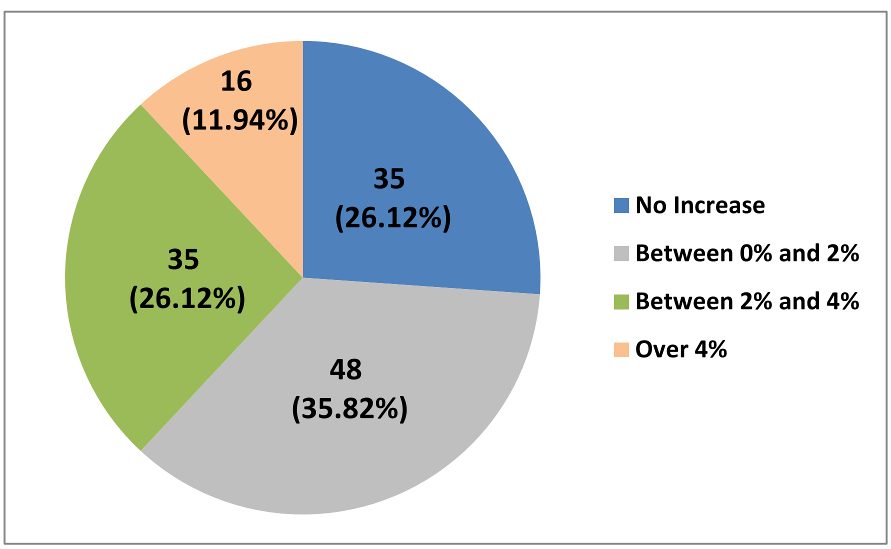
Employability This single response question was answered by 154 respondents.		
Response	**Number of Respondents**	**Percentage of Respondents**
Agree	111	72.08%
Disagree	21	13.64%
Unsure	22	14.29%
A Sustainable Environment **This single response question was answered by 153 respondents.**		
Response	**Number of Respondents**	**Percentage of Respondents**
Agree	112	73.20%
Disagree	26	16.99%
Unsure	15	9.80%

2. Council Tax

When asked about Council Tax, citizens were given an option to either:

- Maintain as many services at the current level as possible even if it means a reasonable increase in Council Tax
- Cut services to keep any increase in Council Tax to a minimum

The preferred Council Tax increases from the 134 respondents are displayed below.



Capital Programme 2016/17 to 2019/20
Council 23 March 2016

Expenditure	Revised 2016/17 £'000	Revised 2017/18 £'000	Revised 2018/19 £'000	Revised 2019/20 £'000	Total £'000	Corporate Priority Area
21st Century Schools Programme						
Afon Taf High School Remodelling	1,931	1,375	0		3,306	RSA
Ysgol Y Graig Primary School	200	1,000	3,800		5,000	RSA
	2,131	2,375	3,800		8,306	
Physical Regeneration Programme						
Building for the Future (Castle)	250	250	0		500	ED
Building for the Future (Glebeland Site)	50	0	0		50	ED
Vibrant and Viable Places Programme	486	200	50		736	ED
Townscape Heritage Initiative Programme	50	50	50		150	ED
Parks for People 2	20	50	50		120	ED
Cyfarthfa Furnaces	150	150	150		450	ED
	1,006	700	300		2,006	
Riverside						
Riverside Project	290	0	0		290	SE
Riverside Phase 3 Taff and Crescent Street	439	404	351		1,194	SE
	729	404	351		1,484	
Other Projects						
Schools Feasibility Studies	60	0	0		60	RSA
Cyfarthfa High School Roof Replacement	124	129	0		253	RSA
Ysgol Rhyd Y Grug Primary School	250	0	0		250	RSA
Disabled Facilities Grants	850	850	850		2,550	PI
Highway Maintenance	600	600	600		1,800	CBAU
Replacement Expansion Joints, Fiddlers Elbow	1,000	0	0		1,000	CBAU
Brandy Bridge, Abercanaid	200	300	0		500	CBAU
Road Slippage South of Pontygwaith	500	0	0		500	CBAU
Corporate Maintenance	235	235	235		705	CBAU
Land Purchase	1,100	0	0		1,100	CBAU
Depot Review	100	547	0		647	CBAU
Investment costs	900	0	0		900	CBAU
Redundancy costs	750	750	750		2,250	CBAU
Costs of Supporting Capital Projects	361	361	361		1,083	CBAU
Unallocated	0	0	1,026	4,122	5,148	-
	7,030	3,772	3,822	4,122	18,746	
Total	**10,896**	**7,251**	**8,273**	**4,122**	**30,542**	

Appendix 7 (continued)

Capital Programme 2016/17 to 2019/20
Council 23 March 2016

Funding	Revised 2016/17 £'000	Revised 2017/18 £'000	Revised 2018/19 £'000	Revised 2019/20 £'000	Total £'000
General Capital Funding - Grant	**992**	**992**	**992**	**992**	**3,968**
Supported Borrowing					
General Capital Funding - Supported Borrowing	1,630	1,630	1,630	1,630	6,520
WG Supported Borrowing - 21st Century Schools	431	0	0	0	431
	2,061	**1,630**	**1,630**	**1,630**	**6,951**
Capital Receipts					
Capital Receipts - Capitalisation	750	750	750	750	3,000
Capital Receipts - Riverside	439	404	351	0	1,194
	1,189	**1,154**	**1,101**	**750**	**4,194**
Unsupported Borrowing					
Unsupported Borrowing - General	4,954	1,100	750	750	7,554
Unsupported Borrowing - 21st Century Schools	1,700	2,375	3,800	0	7,875
	6,654	**3,475**	**4,550**	**750**	**15,429**
Total	**10,896**	**7,251**	**8,273**	**4,122**	**30,542**

Appendix 8

Capital Programme 2016/17 to 2019/20
Council 23 March 2016
21st Century Schools - Band A Programme

Proposed Project	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
Afon Taf High School Remodelling	35	2,465	5,000	3,125	1,375	0	**12,000**
Ysgol Y Graig Primary School	0	0	0	200	3,000	3,800	**7,000**
Total	**35**	**2,465**	**5,000**	**3,325**	**4,375**	**3,800**	**19,000**

Funding Source	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
Welsh Government - Capital Grant	0	1,620	2,530	1,194	2,000	0	**7,344**
Welsh Government - Local Government Borrowing Initiative	0	755	970	431	0	0	**2,156**
Total Welsh Government	**0**	**2,375**	**3,500**	**1,625**	**2,000**	**0**	**9,500**
Merthyr Tydfil County Borough Council	**35**	**90**	**1,500**	**1,700**	**2,375**	**3,800**	**9,500**
Total	**35**	**2,465**	**5,000**	**3,325**	**4,375**	**3,800**	**19,000**

Appendix 9

Capital Programme 2016/17 to 2019/20
Council 23 March 2016
Summary Regeneration Programme 2016/17 to 2018/19

Project	MTCBC £'000	External Funding £'000	Total £'000
Building for the Future (Castle)	500	8,122	**8,622**
Building for the Future (Glebeland Site)	50	2,250	**2,300**
Vibrant and Viable Places Programme	736	56,755	**57,491**
Townscape Heritage Initiative (THI) Programme	150	1,164	**1,314**
Parks for People 2	120	1,422	**1,542**
Cyfarthfa Furnaces	450	850	**1,300**
Total	**2,006**	**70,563**	**72,569**

Appendix 10

Capital Programme 2016/17 to 2019/20
Council 23 March 2016
Summary Riverside Programme 2014/15 to 2018/19

Expenditure Profile / Funding Source	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
MTCBC	30	3,604	729	404	351	5,118
Welsh Government	5,700	1,000	0	0	0	6,700
Total	**5,730**	**4,604**	**729**	**404**	**351**	**11,818**

Appendix 11

TREASURY MANAGEMENT POLICY STATEMENT and ANNUAL INVESTMENT STRATEGY 2016/17

1.0 INTRODUCTION

1.1 This strategy statement has been prepared in accordance with the Treasury Management Code of Practice. It is a requirement of the Code that the Council formally adopts the Treasury Management Policy Statement (Appendix i) and the Code (Appendix ii). The Council formally adopted the code on the Council of 24th March 2010.

1.2 Appendix iii highlights the reporting arrangements required by the revised Code. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

2.0 TREASURY MANAGEMENT STRATEGY FOR 2016/17

2.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (included as paragraph 13) setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.3 The suggested strategy for 2016/17 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury indicators in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- policy on borrowing in advance of need;

- prospects for interest rates;
- economic background;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy; and
- policy on use of external service providers.

3.0 BALANCED BUDGET REQUIREMENT

3.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

3.2 The Budget for 2016/17 was approved by Council on 2nd March 2016.

4.0 TREASURY LIMITS FOR 2016/17 – 2018/19

4.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

4.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

4.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion, incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

5.0 PRUDENTIAL AND TREASURY INDICATORS FOR 2016/17 – 2018/19

5.1 CIPFA has issued a revised Prudential Code in 2009 (updated 2012) which primarily covers borrowing and the Prudential Indicators.

5.2 The Prudential and Treasury Indicators disclosed in Appendix iv are relevant for the purposes of setting an integrated treasury management strategy.

6.0 CURRENT PORTFOLIO POSITION

6.1 The Council's projected treasury portfolio position at 31st March 2016 comprises:

Description	**Principal £'000**	**Average Rate %**
Fixed rate funding • PWLB • Market Variable rate funding • PWLB • Market	 57,234 15,000 0 12,000	 7.53 0.54 0.00 4.50
Total Debt	**84,234**	**5.85**
Total Investments	**0**	**0.00**

7.0 BORROWING REQUIREMENT

7.1 The Council's borrowing requirement to finance its proposed capital expenditure for the next 3 years, together with its projection for 2015/16 is as follows.

Description	**Projected 2015/16 £'000**	**Estimate 2016/17 £'000**	**Estimate 2017/18 £'000**	**Estimate 2018/19 £'000**
New borrowing	10,293	9,067	7,219	6,304

Additionally when circumstances are considered favourable, the Authority may also restructure its long-term debt portfolio to take advantage of attractive interest rates.

8.0 PROSPECTS FOR INTEREST RATES

8.1 The Council employ's Treasury Management Consultants, part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Consultants view at 20th January 2016.

Capita interest rate forecast – 20th January 2016

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2016	0.50	2.00	3.40	3.20
June 2016	0.50	2.10	3.40	3.20
Sept 2016	0.50	2.20	3.50	3.30
Dec 2016	0.75	2.30	3.60	3.40
March 2017	0.75	2.40	3.70	3.50
June 2017	1.00	2.50	3.70	3.60
Sept 2017	1.00	2.60	3.80	3.70
Dec 2017	1.25	2.70	3.90	3.80
March 2018	1.25	2.80	4.00	3.90
June 2018	1.50	2.90	4.00	4.00
Sept 2018	1.50	3.00	4.10	4.00
Dec 2018	1.75	3.10	4.10	4.00
March 2019	1.75	3.20	4.10	4.00

8.2 The bank rate is currently at 0.50% and is not expected to start increasing until quarter 4 of 2016/17.

9.0 ECONOMIC BACKGROUND

9.1 Global Economy

9.1.1 In the Eurozone in January 2015, the ECB (European Central Bank) started a 1.1 trillion Euro programme of quantatitive easing to buy high credit quality government and other debt of selected Eurozone Countries. This programme was intended to run initially to September 2016 but has now been extended to March 2017. The programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth.It is likely that the ECB will need to boost it's Quantative Easing programme if it is to succeed in significantly improving growth in the EZ and increasing inflation from the current level of around zero to its target of 2%.

9.1.2 The American economy made a strong comeback after a weak first quarter's growth at +0.6%, to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. Growth in employment in 2015 prepared the way for the Federal Bank to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, that in previous business cycles, mirroring comments by our own Monetary Policy Committee.

9.2 <u>UK Economy</u>

9.2.1 UK growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 Country; the growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks to disappoint previous forecasts and come in at about 2%. Quarter one was weak at +0.4%, with a slight increase to +0.5% in Quarter two before weakening again to +0.4% in Quarter 3.The November Bank of England Inflation report included a forecast for growth to remain around 2.5-2.7% over the next three years, driven by strong consumer demand as the squeeze on disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015.

10.0 FORWARD VIEW

10.1 Economic forecasting remains difficult with so many external influences weighing on the UK. Only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of Key areas:

- UK economic growth and increases in inflation are weaker than we currently anticipate
- Weak growth or recession in the UK's main trading partners – the EU and the US.
- A resurgence of the Eurozone sovereign debt crisis
- Recapitalising of European banks requiring more government financial support

11.0 BORROWING STRATEGY

11.1 In view of the interest rate forecasts in 8.1 the Council's borrowing strategy will be based upon the following information:

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates
- Temporary borrowing from the money markets or other local authorities
- Short dated borrowing from non PWLB sources
- Long term borrowing from PWLB to support spending plans in respect of the capital programme.

11.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Chief Finance Officer will monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or Council at the next available opportunity.

11.3 The main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

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

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

- consider the merits and demerits of alternative forms of funding

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

12.0 DEBT RESCHEDULING

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

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

- the generation of cash savings;
- help fulfil the strategy outlined in paragraph 11 above; and
- enhance the balance of the portfolio by for example amending the maturity profile

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

12.4 All rescheduling will be reported to the Cabinet or Council at the meeting following its action.

13.0 ANNUAL INVESTMENT STRATEGY

13.1 Investment Policy

13.1.1 The Council's investment policy has regard to the Welsh Assembly Government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

13.1.2 The Council's investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

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

13.1.4 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories.

13.2 Specified Investments

13.2.1 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

Investment	Security	Use
Debt Management Agency Deposit Facility	High	In-house
Term deposits – UK Local Authorities	High although LA's not credit rated	In-house
Term deposits – UK Banks and Building Societies	All UK banks and top 25 UK Building Societies based on assets	In-house

13.2.2 Investment limits in the Treasury Management Policy and Annual Investment Strategy for 2015/16 reported to Council on 25th March 2015 were as follows:

- £5 million to any one UK Local Authority

- £5 million to any one UK Bank or Building Society
- UK Government as required

From the interest rate projections in paragraph 8 it is evident that interest rates are not expected to begin increasing until the fourth Quarter of 2016/17. It is therefore considered prudent to maintain the exposure limits for investments to those reported to Council on 25th March 2015.

13.3 Non-Specified Investments

13.3.1 Non-specified investments are those with maturity dates in excess of 1 year. As disclosed within Appendix iv (Treasury Indicators) there are no proposals for the Council to invest for periods longer than 364 days, especially in the current economic climate.

13.4 Security of Capital

13.4.1 This Council currently relies on information supplied by investment brokers to determine the creditworthiness of counterparties. It is the Council's policy to deal only with UK banks and the top 25 UK building societies based on total assets.

13.4.2 It was the intention in the longer term to move towards a process reliant on credit ratings to establish the credit quality of counterparties (issuers and issues) and investment schemes where all credit ratings would be monitored monthly. In light of the continuing economic uncertainty however, it is considered prudent for 2016/17 to maintain the UK banks and the top 25 UK building societies policy.

13.4.3 The revised Code states that credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support. In addition, councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.

13.5 Investment Strategy

13.5.1 The Council's in-house managed funds are mainly cash-flow derived with no significant core balance available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

13.5.2 Capita forecasts Bank Rate to remain unchanged at 0.50% before starting to rise from quarter 4 of 2016/17. The Chief Finance Officer has prudently budgeted for an average investment return of 0.50% on investments placed during 2016/17.

13.6 End of Year Investment Report

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

13.7 Policy on the use of external service providers

13.7.1 Whilst the Council employ's external treasury management advisers, it is recognised that responsibility for treasury management decisions remains with the Council at all times. Undue reliance is not placed upon external service providers. There is, however, value in employing external providers in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

14.0 SCHEME OF DELEGATION

14.1 The Treasury Management scheme of delegation for 2016/17 is as follows, with appropriate related reporting arrangements disclosed in Appendix iii.

Council should

- receive and review reports on treasury management policies, practices and activities
- approve the annual strategy

Council/Cabinet should

- approve amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- consider and approve the budget
- approve the division of responsibilities
- receive and review regular monitoring reports and act on recommendations
- approve the selection of external service providers and agreeing terms of appointment.

Scrutiny should

- review the treasury management policy and procedures and make recommendations to Council.

15.0 ROLE OF THE SECTION 151 OFFICER

15.1 The Section 151 Officer is responsible for:

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

Appendix i

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. This organisation 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.

3. This organisation 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."

Appendix ii

Adoption of the Revised CIPFA Treasury Management Code of Practice

Introduction

The CIPFA Code of Practice on Treasury Management in Local Authorities was revised in 2009 (and updated in 2011) in the light of the default by Icelandic banks in 2008. The Code requires that a report be submitted to the Council, Cabinet or other appropriate body, setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Guidance Notes.

The Code also includes an amended version of the Treasury Management Policy Statement incorporating just three clauses and a revised definition of treasury management activities (Appendix i).

Resolutions

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
    - appropriate treasury management practices (TMP), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. Refer to Appendix v for a summary of appropriate TMP recommended by CIPFA.

2. This organisation (Cabinet/Council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Council, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMP and CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Appendix iii

Reporting Arrangements Required by the Revised Code

Description	Committee	Frequency
Revised Treasury Management Policy Statement	Council	Initial adoption in 2010
Treasury Management and Annual Investment Strategy	Council	Annually before the start of the financial year
Treasury Management and Annual Investment Strategy – mid year report	Council	Mid year
Treasury Management and Annual Investment Strategy – updates or revisions	Council	As appropriate
Annual Treasury Outturn Report	Council	Annually after the end of the financial year
Scrutiny of Treasury Management Strategy	Audit / Scrutiny	Annually before the start of the financial year
Scrutiny of Treasury Management Performance	Audit / Scrutiny	Annually after the end of the financial year

The Prudential Code for Capital Finance in Local Authorities

The Prudential Indicators

Prudential Indicators are the mechanism by which the Authority is able to demonstrate that its capital investment decisions are affordable, prudent and sustainable and are designed to support and record local decision-making.

The recommended Prudential Indicators for the Council for the financial years 2016/17 to 2018/19 are disclosed below. I would advise Council that the financial forecasts are made on the basis of best information available at this time and by making reasonable assumptions where significant elements of uncertainty existed. Furthermore, the three-year forecasts are rolling scenarios not fixed for three years.

1. Ratio of Financing Costs to Net Revenue Stream

This indicator is specifically related to the affordability of capital investment decisions addressing the revenue implications of the Authority's financial strategy. In determining the indicators, recommended new borrowing to finance desired future capital expenditure is taken into account.

	Projected 2015/16	**Estimate 2016/17**	**Estimate 2017/18**	**Estimate 2018/19**
Prudential Indicator	6%	6%	6%	6%

2. Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax

This indicator identifies the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements, for 2016/17 and the following two years. The 2016/17 incremental impact is included in the overall recommended Council Tax increase for Merthyr Tydfil County Borough Council for 2016/17 of 3.50%. This is a fundamental indicator of affordability.

Prudential Indicator	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
Impact on Council Tax	£18.24	£32.76	£45.44

3. 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.

As evident from the table below debt is not projected to exceed the capital financing requirement.

Description	Projected 31/03/16 £'000	Estimate 31/03/17 £'000	Estimate 31/03/18 £'000	Estimate 31/03/19 £'000
Capital Financing Requirement	93,984	101,075	106,148	110,167
Debt	88,122	94,640	99,323	103,091
Prudential Indicator	**5,862**	**6,435**	**6,825**	**7,076**

4. Capital Expenditure

The capital expenditure projected outturn for 2015/16 and the estimates of capital expenditure to be incurred for 2016/17 and the following two years are as follows.

	Projected 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000
Prudential Indicator	26,494	22,335	16,996	16,085

The capital expenditure projections for the next three years are derived after taking into account affordable, prudent and sustainable borrowing levels after estimating the availability of capital finance from capital receipts, grants and external contributions. Excess borrowing will either lead to increased Council Tax or reductions in service provision.

5. Capital Financing Requirement

Estimates of the end of year capital financing requirement for the Authority for the current and next three financial years are:

	Projected 31/03/16 £'000	Estimate 31/03/17 £'000	Estimate 31/03/18 £'000	Estimate 31/03/19 £'000
Prudential Indicator	93,984	101,075	106,148	110,167

The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose.

6. Authorised Limit for External Debt

The Council's authorised limits for its external debt gross of investments for the next three financial years are as follows. These limits separately identify borrowing from other long-term liabilities.

Authorised Limit	**Estimate 2016/17 £'000**	**Estimate 2017/18 £'000**	**Estimate 2018/19 £'000**
Borrowing	113,632	118,784	122,928
Other Long-term Liabilities	500	500	500
Prudential Indicator	**114,132**	**119,284**	**123,428**

These authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. I can confirm that they are based on the estimate of most likely, prudent but not worst case scenarios, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

Capital expenditure plans, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes have been taken into account.

The Council is asked to approve these limits and to delegate authority to the Chief Finance Officer for the effective management and monitoring of the authorised limit.

In taking its decisions on this budget report, the Council is asked to note that the authorised limit determined for 2016/17 will be the statutory limit determined under section 3(1) of the Local Government Act 2003 – "A local authority shall determine and keep under review how much money it can afford to borrow".

7. Operational Boundary for External Debt

The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The operational boundary represents a key management tool for in year monitoring by the Chief Finance Officer and is disclosed below with borrowing and other long term liabilities separately identified.

Operational Boundary	**Estimate 2016/17 £'000**	**Estimate 2017/18 £'000**	**Estimate 2018/19 £'000**
Borrowing	103,302	107,985	111,753
Other Long-term Liabilities	500	500	500
Prudential Indicator	**103,802**	**108,485**	**112,253**

The Council is asked to approve these limits and to delegate authority to the Chief Finance Officer for the effective management and monitoring of the operational boundary.

8. Actual External Debt

The Council's projected actual external debt at 31st March 2016 is £86,984 million.

External Debt	**Projected 2015/16 £'000**
Borrowing	86,784
Other Long-term Liabilities	200
Prudential Indicator	**86,984***

It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

* Subject to audit

9. Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services

The Authority has adopted the CIPFA Code of Practice and will be reporting its Treasury Management Policy Statement for the 2016/17 financial year to Council of 23rd March 2016.

Treasury Indicators

10. Interest Rate Exposures

While fixed-rate borrowing and investment can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility through the use of variable interest rates on at least part of a treasury management portfolio. This is a best practice approach to treasury management ensuring effective management and control of risk.
It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2016/17, 2017/18 and 2018/19 of 99% of its net interest payable on borrowing.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2016/17, 2017/18 and 2018/19 of 12% of its net interest payable on borrowing.

This means that the Chief Finance Officer will manage fixed interest rate exposures within the range 88% to 99% and variable interest rate exposures within the range 1% to 12%. The estimated net interest payable in respect of each range is shown in the following Table.

Prudential Indicator	Estimate 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000
Fixed Rates			
88%	4,470	4,547	4,510
99%	5,028	5,115	5,074
Variable Rates			
1%	51	52	51
12%	609	620	615

When interest rates are considered to be relatively low then the policy is to borrow at fixed interest rates taking advantage of any potential future market increases.

11. Maturity Structure of Borrowing

This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

This is the amount of projected borrowing that is maturing in each period as a percentage of total projected borrowing for fixed rate and Variable rate debt.

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Fixed debt

Period	Upper Limit	Lower Limit
Under 12 months	4%	0%
12 months and within 24 months	4%	0%
24 months and within 5 years	17%	0%
5 years and within 10 years	24%	0%
10 years and above	51%	0%

Variable debt

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

The 2011 Code states for LOBO Loans the Maturity date is now deemed to be the next call date.

12. Total Principal Sums Invested for Periods Longer than 364 Days

There are no proposals for the Council to invest sums for periods longer than 364 days.

The purpose of this Prudential Indicator is for the Authority to contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.

Appendix v

Treasury Management Practices

CIPFA recommends that an organisation's Treasury Management Practices (TMP) include the following:

TMP 1 – Risk Management
TMP 2 – Best value and performance measurement
TMP 3 – Decision-making and analysis
TMP 4 – Approved instruments, methods and techniques
TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6 – Reporting requirements and management information arrangements
TMP 7 – Budgeting, accounting and audit arrangements
TMP 8 – Cash and cash flow management
TMP 9 – Money laundering
TMP 10 – Staff training and qualifications
TMP 11 – Use of external service providers
TMP 12 – Corporate governance