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Date of meeting	**Tuesday, 3rd December, 2013**
Time	**7.00 pm**
Venue	**Committee Room 1, Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffordshire, ST5 2AG**
Contact	Louise Stevenson ext 2250

Transformation and Resources Overview and Scrutiny Committee

AGENDA

PART 1 – OPEN AGENDA

1 **Apologies**

2 **DECLARATIONS OF INTEREST**

To receive declarations of interest from Members on items included in the agenda.

3 **MINUTES OF THE PREVIOUS MEETING** **(Pages 1 - 6)**

To consider the minutes of the previous meeting of this Committee held on 6 November 2013.

4 **THE BUDGET CONSULTATION PROCESS**

This report will be sent to follow.

5 **TREASURY MANAGEMENT STRATEGY** **(Pages 7 - 28)**

A report on the Treasury Management Strategy is attached.

6 **FIRST DRAFT SAVINGS PLANS 2014/2015** **(Pages 29 - 34)**

A report on the first draft savings plans for 2014 / 15 is attached.

7 **PORTFOLIO HOLDER(S) QUESTION TIME**

The Portfolio Holder for Communications, Policy and Partnerships will give a statement on his priorities and work objectives for the next six months. The Committee will have the opportunity to ask questions following the statement. There will be an opportunity for the Portfolio Holder to flag up areas within their remit that may benefit from scrutiny in the future e.g. policy development.

8 **VERBAL REPORT FROM THE CHAIR OF THE CONSTITUTION REVIEW WORKING GROUP**

The Chair of the Constitution Review Working Group, Cllr Elizabeth Shenton, will give a verbal report on their progress.

9 WORK PLAN **(Pages 35 - 38)**

To discuss and update the current work plan for the Scrutiny Committee.

10 Part 2

11 EXCLUSION OF THE PUBLIC

To resolve that the public be excluded from the meeting during consideration of the attached report, because it is likely that there will be disclosure of exempt information as defined in paragraph 3 in Part 1 of Schedule 12A of the Local Government Act 1972.

12 ASSET MANAGEMENT STRATEGY

To consider the financial implications of the Asset Management Strategy. Report is marked to follow.

13 URGENT BUSINESS

To consider any business which is urgent within the meaning of Section 100B (4) of the Local Government Act 1972.

Members: Councillors Bannister, D Becket, Mrs Burgess (Vice-Chair), Fear, Hambleton, Mrs Hambleton, Howells, Jones, Mrs Shenton (Chair), Taylor.J and Waring

PLEASE NOTE: The Council Chamber is fitted with a loop system. In addition, there is a volume button on the base of the microphones. A portable loop system is available for all other rooms upon request.

Members of the Council: If you identify any personal training/development requirements from any of the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Democratic Services Officer at the close of the meeting.

<u>Meeting Quorums :-</u> 16+= 5 Members; 10-15=4 Members; 5-9=3 Members; 5 or less = 2 Members.

Officers will be in attendance prior to the meeting for informal discussions on agenda items.

TRANSFORMATION AND RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

Wednesday, 6th November, 2013

Present:	Councillor Mrs Elizabeth Shenton – in the Chair
Councillors:	D Becket, Mrs Burgess, Hambleton, Mrs Hambleton, Jones, Taylor.J and Waring
Portfolio Holder(s):	Cllr Snell – Communications, Policy and Partnerships
Officers:	Mark Bailey – Head of Business Improvement & Partnerships Martin Stevens – Scrutiny Officer Louise Stevenson – Scrutiny Officer Kelvin Turner – Executive Director, Resources & Support Services

1. **APOLOGIES**

Apologies were received from Cllr Howells. Cllr Stubbs also sent his apologies as Cabinet Portfolio Holder for Finance and Resources.

2. **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

3. **MINUTES OF PREVIOUS MEETINGS**

RESOLVED: That the minutes of the previous meetings held on 2 September 2013 and 9 October 2013 be agreed as a correct record.

4. **CAPITAL STRATEGY 2014 TO 2017**

The Executive Director, Resources and Support Services introduced the Capital Strategy 2014 to 2017. The first draft was ready for scrutiny comments prior to consideration by Cabinet in January and full Council in February.

The strategy had been prepared against the backdrop of continued reduction in funding and it was necessary for it to be linked closely to the Asset Management Strategy in order to identify additional capital resources through potential disposals. The Asset Management Strategy contained a list of potential disposal assets and land assets were balanced with finances. All assets, both land and property, were being profiled, and there was some concern regarding older buildings. Staffordshire County Council had given notice on its lease of buildings in Sidmouth Avenue and their long term future was being considered, in particular the potential holding costs should the buildings stand empty. The Portfolio Holders for Finance and Resources and Economic Development, Regeneration and Town Centres would provide a response detailing how the Asset Management Strategy was compiled. Assets were monitored and potential strategic acquisitions to achieve overall bigger receipts would be investigated.

The income received from the Council's share of receipts from Aspire tenants under the Right to Buy legislation had decreased significantly. This had been a main source of funding previously, although they were beginning to increase. The Council received a fixed proportion of the sale price of a property. Members questioned what the remaining maximum potential income from the scheme was and the time limits for right to buy. The remaining potential income was estimated to be very limited and the time limits would be ascertained and circulated after the meeting. Social landlords were offering more shared ownerships schemes which impacted on Right to Buy rates.

Members requested clarification of paragraph 6.11 of the strategy relating to borrowing. They felt the wording suggested that borrowing would only be considered if capital resources were depleted, but that borrowing could allow for savings through capital investment without utilising capital funds. They felt the wording needed to be flexible as it may currently exclude such borrowing projects. The Executive Director, Resources and Support Services would check and change the wording if necessary. There was the Invest to Save Initiative (funded by the Budget Support Fund) which could be used to front load projects. The Portfolio Holder for Finance and Resources had discussed short term borrowing with the Cabinet and where a business case could be demonstrated Cabinet would consider these on a case by case basis. The Treasury Management Strategy would provide the ultimate decision regarding borrowing and a draft of this would be received at the next meeting.

RECOMMENDATIONS: (a) The time limit for Right to Buy house purchases to be ascertained and circulated to the Committee.

(b) The Portfolio Holders for Finance and Resources and Economic Development, Regeneration and Town Centres to provide a response detailing how the Asset Management Strategy is compiled.

(c) The Executive Director, Resources and Support Services to review the wording of the Capital Strategy 2014 to 2017, with particular reference to paragraph 6.11 and amend if necessary.

5. **MEDIUM TERM FINANCIAL STRATEGY 2014/15 TO 2018/19**

The Executive Director, Resources and Support Services introduced the Medium Term Financial Strategy (MTFS) 2014/15 to 2018/19. Local authorities still faced challenging financial situations and where previous budget strategies had focussed on areas such as additional income and procurement savings more radical methods would be required in the future. The Council's external auditors had conducted a Financial Resilience Review and the Council had scored well with good systems, procedures and processes to face the challenges ahead.

A Member questioned whether the Committee could receive the MTFS prior to Cabinet in future. The Leader would pass the query to the Portfolio Holder for Finance and Resources to review the timetable, ascertain if the request was possible and provide a formal explanation as to why the MTFS was received by Cabinet first. The MTFS was a living document and the Leader was happy to receive the Committee's comments and minor amendments could be made.

Members were concerned that the Strategy did not emphasise the severity of the financial situation. Risk assessments would be conducted by the Business Improvements team for any service changes. All Council departments had been asked to model what their service would look like with a 20%, 40% and 60% budget reduction which would create a picture of what the Council could afford to do. Savings from the Heads of Service posts that had recently been vacated would be included in the Draft Savings Plans that would be received at the December meeting.

There was discussion of the growth agenda and the need to look for external funding which the MTFS did contain some modelling for. Members felt it was essential to look beyond being more efficient and considered that there were several strands that needed to be pursued including more work with the voluntary sector for the benefit of residents, health authorities focussing more on prevention rather than treatment and sharing services such as was being investigated with the Legal department. The model being looked at for the Legal department was not the one that had been anticipated. Keeping the Council's legal service was now being looked at with the possibility of buying in services from the County Council as required, which could potentially be a model for other areas. It was necessary to look at alternative models of delivery and look at what other authorities were doing well.

With decreasing funding from central government the tax payer would be the biggest funding source for the Council and there was a changing relationship between local authorities and the public. Services would need to be more focussed to a local need rather than government targets. The third sector would be able to deliver some services better than the Council, and through the Co-operative Strategy they could be commissioned with the emphasis on social values. It might also be necessary to rationalise the Council plan.

Members questioned whether there was an indication of when central government funding would cease. If the funding reductions continued on the current trajectory then the estimate would be 2021-2022. Members were of the opinion that when the funding did stop there would be an opportunity to develop the Borough with partners without the need to borrow money. There was a model with a neighbouring authority whereby they had entered into a joint venture with a company who they lent money to at a greater rate than they had borrowed.

There was also discussion around issues that could influence the MTFS such as HS2 and JCB leasing the Blue Planet building in Chatterley Valley, Newcastle.

RECOMMENDATIONS: The Portfolio Holder for Finance and Resources to ascertain whether the Medium Term Financial Strategy can be received by the Committee prior to Cabinet in future and provide a formal explanation as to why the strategy was received by Cabinet before the scrutiny committee.

6. FINANCIAL AND PERFORMANCE MANAGEMENT REPORT TO END OF QUARTER TWO (SEPTEMBER) 2013

The Executive Director, Resources and Support Services introduced the Financial and Performance Management Report to end of quarter two (September) 2013. The Council was in a good position for the first half of the year. Members questioned the financial performance of Jubilee 2 and the overspend at Kidsgrove Sports Centre. Jubilee 2 was performing well and there were on-going discussions with Staffordshire County Council with regard to Kidsgrove Sports Centre.

The Head of Business Improvement and Partnerships introduced the performance element of the report. In general performance was good and the majority of indicators were on target. There had been an attempt to indicate where there were trends with indicators and following an action from the previous meeting a short guide to the report had been circulated. The Head of Business Improvement and Partnerships provided an updated of the recommendations from the last meeting, which had been addressed in the main. There had been a decrease in the indicator for leisure and recreational facilities which was a consequence of the issues at Kidsgrove Sports Centre. There was a positive performance for detritus, but crime and disorder figures were generally up. A Member requested that thanks be extended from the Committee to Council staff to thank them for the improvement and provide encouragement for future positive indicators for detritus. The Chair questioned how the information was collated for reference 1.4.2 regarding the number of community volunteer groups/hours spent caring for their local green spaces and neighbourhoods. This would be clarified.

A Member felt that performance indicators linked to the Medium Term Financial Strategy and questioned whether there were conversations to rationalise services and therefore save money. For services like grass cutting the Borough Council, County Council and Aspire are currently doing jobs like this separately, which Members felt must be inefficient. A discussion on responsibilities for grass cutting with Aspire had already been broached. Conversations about future service delivery were also taking place with Staffordshire County Council and Aspire. The County Council were looking for district councils to deliver services, in particular for highways, but they were looking for complete coverage of the whole of the county by several district councils. The Borough Council was in discussion with Stafford Borough Council and Cannock Chase Council regarding joint coverage of the county. The Portfolio Holders for Culture and Leisure and Environment and Recycling were looking to utilise green land that the Council held as community orchards or vegetable plots to mitigate maintenance costs and provide community projects.

A Member questioned whether the Disabled Facilities Grant considered the whole life of recipients, giving the example that a stair lift for a young person would need replacing later on in their life, and it would be more cost efficient to lease the lift rather than purchasing it. The Leader would ask the Portfolio Holder for Economic Development, Regeneration and Town Centres to consider this and whether Disabled Facilities Grants were as efficient as they could be.

There was a discussion regarding the rescue plan for the Co-operative Bank that had been announced. As part of the rescue plan the bank's business with local authorities would cease and the Council had received notification to this effect. The bank would however be honouring their contracts until 2015 and a tendering exercise would begin in the New Year to identify a new bank.

RECOMMENDATIONS: (a) Officers clarify how the information is collated for reference 1.4.2 regarding the number of community volunteer groups/hours spent caring for their local green spaces and neighbourhoods.

(b) The Portfolio Holder for Economic Development, Regeneration and Town Centres to investigate the efficiency of Disabled Facilities Grants.

7. **WORK PLAN**

The Committee gave consideration to its work plan. The Portfolio Holder for Economic Development, Regeneration and Town Centres would be invited to the next meeting of the Committee in relation to the Asset Management Strategy.

The Council Plan update item would be moved to the 22 January 2014 meeting. The Leader clarified that he would provide written responses to advance questions received for the Portfolio Holder Question Time item for the 3 December meeting. A document was also distributed detailing the remits of the Committee and the Portfolio Holder in readiness for the item at the next meeting. A Portfolio Holder Question

Time item would be added to the agenda for 26 March 2014 to enable the Committee to question the Portfolio Holder for Finance and Resources.

8. **URGENT BUSINESS**

There was no urgent business considered.

COUNCILLOR MRS ELIZABETH SHENTON
Chair

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE TRANSFORMATION AND RESOURCES OVERVIEW AND SCRUTINYCOMMITTEE

3 December 2013

1. TREASURY MANAGEMENT STRATEGY 2014/15

Submitted by: **Head of Finance**

Portfolio: **Finance & Resources**

Ward(s) affected: **All Indirectly**

Purpose of the Report

To consider the content of and scrutinise the Treasury Management Strategy for 2014/15, including the Prudential Indicators, Investment Strategy and Minimum Revenue Provision Strategy contained within it.

Recommendations

(a) That the Committee consider and scrutinise the content of the Treasury Management Strategy for 2014/15.

(b) That the Committee approve the strategy for submission to the Full Council on 26 February 2014.

Reasons

The Council needs to have an approved Treasury Management Strategy for 2014/15 in place before the start of the 2014/15 financial year.

At the Council meeting of 24 June 2009 it was resolved that the strategy be scrutinised by the Transformation and Resources Overview and Scrutiny Committee before being submitted for approval by Full Council. The strategy will be submitted to the Full Council for approval at its meeting on 26 February 2014.

1. Background

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice. This requires a report to be prepared and approved by the Council concerning the strategy to be followed in carrying out its treasury management activities in the forthcoming financial year, 2014/15.

1.2 The Local Government Act 2003 and Regulations thereto specify that local authorities must have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities in setting their affordable borrowing limits. This is to be achieved by setting a number of "prudential indicators" covering various aspects of treasury management. Accordingly, the appropriate prudential indicators have been incorporated in the relevant sections of the Treasury Management Strategy Report.

1.3 In addition the Department for Communities and Local Government (DCLG) issued revised "Guidance on Local Authority Investments" in March 2010, under powers contained in Section 15 (1)(a) of the Local Government Act 2003. The Act states that local authorities must have regard to this guidance. The Guidance recommends that an Annual Investment Strategy, setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments is produced and approved by the Full Council.

2. **Issues**

2.1 The draft Strategy Report for 2014/15 is attached at Appendix 1

2.2 The draft proposed prudential indicators relating to treasury management are contained in the report.

2.3 The draft Investment Strategy for 2014/15 is contained in Annex A to the report.

2.4 Details of the methodology involved in the production of the counterparty listing are contained in Annex B to the report.

2.5 The draft Minimum Revenue Provision Strategy for 2014/15 is contained in Annex C to the report.

3. **Legal and Statutory Implications**

3.1 The Council must comply with the Investment Guidance published by DCLG.

4. **Financial and Resource Implications**

4.1 There are no specific financial implications arising from the strategy report.

5. **Major Risks**

5.1 Treasury management is a major area of risk for the Council in that large amounts of money are dealt with on a daily basis and there are a number of limits and indicators, which must be complied with.

5.2 The overriding consideration in determining where to place the Council's surplus funds is to safeguard the Council's capital. Within this constraint the aim is to maximise the return on capital.

5.3 Operational procedures, coupled with monitoring arrangements, are in place to minimise the risk of departures from the approved strategy.

6. **Recommendations**

6.1 That the Committee consider and scrutinise the content of the Treasury Management Strategy for 2014/15.

6.2 That the Committee approve the strategy for submission to the Full Council on 26 February 2014.

7. **List of Appendices**

7.1 Appendix 1 Treasury Management Strategy Report 2014/15.

8. **Background Papers**

- CIPFA Treasury Management Code of Practice (revised November 2009 and again in November 2011);
- Council's Treasury Management Policy Statement,
- CIPFA Prudential Code for Capital Finance in Local Authorities and guidance notes thereto,
- Local Government Act 2003,
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003,
- Guidance on Local Authority Investments issued by the Department for Communities and Local Government (revised March 2010).
- Treasury Management Advisor's Treasury Management Strategy Statement Template (issued on 21/10/13).

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Treasury Management Strategy Report 2014/15

1.0 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate security and liquidity initially before considering investment return.

The second main function of a treasury management service is the funding of an authority's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasions any debt previously drawn may be restructured to meet Council risk or cost objectives. Currently, however, the Council does not finance its capital investment by way of borrowing, so these activities are not presently engaged in.

Treasury management is defined as:

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

1.2 Statutory Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The reports required are as follows:

Prudential and Treasury Indicators and Treasury Strategy (this report) – This report is required to be scrutinised by the Transformation and Resources Overview and Scrutiny Committee prior to being reported to Full Council. This report covers:

- prudential indicators;
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;
- an investment strategy (the parameters on how investments are to be managed); and
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time).

A Mid Year Treasury Management Review Report – This report is required to be scrutinised by the Audit and Risk Committee. This will update members with the progress of the treasury management performance for the first half of the financial year and whether or not the treasury strategy approved by Full Council prior to commencement of the financial year is still appropriate or requires revision.

An Annual Treasury Outturn Report – This report is received by Full Council. This provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2014/15

The strategy for 2014/15 covers two main areas:

Capital Issues
- prudential indicators;
- the Minimum Revenue Provision (MRP) Policy (Annex C).

Treasury management Issues
- treasury indicators which will limit the treasury risk and activities of the Council;
- policy on use of external service providers.
- the current treasury position;
- prospects for interest rates;
- policy on borrowing in advance of need;
- the investment strategy (Annex A);
- creditworthiness policy. (Annex B); and
- treasury management Glossary of Terms (Annex D).

These elements cover the requirements of the:
- Local Government Act 2003;
- CIFPA Prudential Code:
- DCLG MRP Guidance;
- CIPFA Treasury Management Code; and
- DCLG Investment Guidance.

2.0 Prudential and Treasury Indicators

2.1 Background

This report incorporates a number of Prudential Indicators in relation to treasury management in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Code"). Regulations to the Local Government Act 2003 lay down that the Council shall have regard to the Prudential Code in determining an affordable borrowing limit.

The indicators are intended to demonstrate that the Council has fulfilled the objective of ensuring that its capital investment decisions are prudent, affordable and sustainable – or in exceptional cases to demonstrate that there is a danger of not ensuring this, so that timely remedial action can be taken. They are further designed to ensure that treasury management decisions are taken in a manner that supports prudence, affordability and sustainability.

2.2 Capital Prudential Indicators

- **Actual and Estimate of Capital Expenditure**

This indicator relating to Actual and Estimates of Capital Expenditure is reported separately to the Council meeting which sets the General Fund Revenue Budget and the Council Tax (26 February 2014).

- **The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The Capital Financing Requirement is derived from the Council's balance sheet by consolidating various items appearing in it which relate to capital, such as: fixed assets (including property, plant and equipment, investment properties, long term debtors, assets held for sale and intangible assets); the revaluation reserve, capital adjustment account and deferred capital receipts. It is essentially a measure of the Council's underlying borrowing need. Following the introduction of International Financial Reporting Standards (IFRS) in 2011/12, the calculation of the CFR now has to include any other long term liabilities (e.g. finance leases) brought onto the balance sheet. The relevant figures for this Council are set out in the table below:

31/03/13 Actual (£000's)	31/03/14 Estimate (£000's)	31/03/15 Estimate (£000's)	31/03/16 Estimate (£000's)	31/03/17 Estimate (£000's)
(197)	(350)	3,000	10,000	10,000

The amounts shown above from 2014/15 onwards allow for the possibility that the Council may need to borrow during those years to finance capital expenditure which cannot be funded from other revenue or capital resources. This refers to a general overall expected increase in capital expenditure. However, the likelihood of individual schemes, the timings and the amounts involved cannot be assessed with any certainty at this point.

2.3 Affordability Prudential Indicators

- **Estimates of the Incremental Impact of Capital Investment Decisions on Council Tax**

This indicator relating to Estimates of the Incremental Impact of Capital Investment Decisions on Council Tax is reported separately to the Council meeting which sets the General Fund Revenue Budget and the Council Tax (26 February 2014).

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

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Financing Costs comprise the aggregate of: interest payable on loans and finance leases; premiums or discounts in relation to premature debt repayment; interest receivable and investment income; the amount charged as a 'Minimum Revenue Provision; depreciation and impairment charges that have not been reversed out of the revenue account.

Net Revenue Stream is defined as the 'amount to be met from government grants and local taxpayers'. This is the Council's 'budgetary requirements' figure shown in the General Fund Revenue Budget, being the net expenditure for the year before deducting government grants (Revenue Support and NNDR) and adjusting for the Collection Fund Surplus/Deficit. The relevant figures for this Council are set out in the table below:

	2012/13 Actual (£000's)	2013/14 Estimate (£000's)	2014/15 Estimate (£000's)	2015/16 Estimate (£000's)	2016/17 Estimate (£000's)
Net Revenue Stream	15,381	15,194	14,071	12,974	12,739
Financing Costs	(159)	(4)	4	4	7
Ratio	(1.04%)	(0.02)	0.02	0.03	0.06

The current negative Financing Costs reflect the position that the Council's investment income and other interest exceed the interest paid to service its external debt/finance leases.

2.4 Treasury Indicators

- **Actual External Debt and Net Borrowing**

Debt

Currently the Council has no long term external debt and is categorised as a ‘debt free’ authority. Short term external loans (i.e. repayable on demand or within 12 months) can be taken to fund any temporary capital or revenue borrowing requirement. The amounts involved would fluctuate according to the cash flow position at any one time. Such short term borrowing does not affect the Council’s ‘debt free’ status.

Any surplus funds arising, for example from favourable cash flow or as a result of asset sales, are potentially available for use as an alternative to short term borrowing. The Actual External Debt of the Council as at the end of the previous financial year is a Prudential Indicator. This indicator comprises actual borrowing (short and long term) as shown in the Council’s balance sheet. This indicator will reflect the actual position at one point in time. As at 31 March 2013 the Actual External Debt of the Council was nil.

Investments

It is estimated that the amount of receipts in hand, plus reserve balances, and available for investment at 1 April 2014 will be in the region of £4,300,000, all of which will be managed In House.

- **Limits to Borrowing Activity (The Operational Boundary and The Authorised Limit for External Borrowing)**

The Local Government Act 2003 requires each local authority to determine and keep under review how much money it can afford to borrow. This is to be determined by the calculation of an affordable borrowing limit which Regulations to the Act specify should be calculated with regard to the CIPFA Prudential Code.

At present borrowing is not being used to fund the capital programme because the Council has had sufficient reserves and useable capital receipts to finance capital expenditure from these sources. Borrowing may become an option if these resources become sufficiently depleted that they are insufficient to finance proposed capital expenditure deemed to be affordable, if the costs of borrowing compare favourably with those of alternatives such as using unapplied capital receipts, or if in fact there is a sufficient business case to do so.

There may be a requirement to temporarily fund some capital expenditure by means of borrowing during the interim period before a permanent means of finance becomes available, for example whilst awaiting receipt of Government grant. As well as temporary borrowing required for capital purposes, it may also be necessary to borrow in order to cover any temporary shortfall in revenue income which may arise owing to either a mismatch between income and expenditure or problems concerning the non payment of amounts due to be paid by the Council’s customers. These factors have been taken into account in calculating the Prudential Indicators referred to below.

Projections of the need for capital investment in projects necessary to ensure operational continuity over the next few years, together with projections of likely capital receipts arising from asset sales and the availability of reserves to finance this expenditure indicate that there is likely at some point to be an adverse gap between expenditure and resources to finance it. This increases the likelihood of borrowing being used over the period of this strategy, particularly as an interim measure to bridge the gap between expenditure being incurred and funds from asset sales being realised. The amounts included for permitted borrowing in the Operational Boundary and Authorised Limit below take account of this. It should be noted that this does not indicate a definite intention at this point in time to borrow up to this amount or at all but is required to permit the option of borrowing to be employed, if necessary.

The Operational Boundary

This indicator gives a prudent view of the possible external debt during the course of the year. It is not a limit and actual borrowing can vary around this boundary for short times during the year. It should act as an indicator to ensure that the Authorised Limit is not breached. The Code requires the inclusion of a figure, separately shown, for Other Long Term Liabilities. Following the introduction of International Financial Reporting Standards in 2011/12, finance leases must now be included in this figure. As referred to above, the Council may, if considered desirable from a treasury management point of view, take out long term loans to finance capital expenditure incurred in 2014/15, 2015/16, 2016/17 and 2017/18. The figures shown in the table below reflect the possibility that up to £8,000,000 may be borrowed at any one time on a long term basis in 2014/15. The Operational Boundaries for the Council are set out below:

	2014/15 Estimate (£000's)	2015/16 Estimate (£000s)	2016/17 Estimate (£000's)	2017/18 Estimate (£000's)
Borrowing	8,000	15,000	15,000	15,000
Other Long Term Liabilities	459	459	459	459

The Authorised Limit for External Borrowing

This represents the limit beyond which borrowing (long and short term added together) is prohibited. Officers responsible for day-to-day treasury management operations must ensure that the Council's borrowings do not exceed this limit. It reflects the level of borrowing which, while not desired, could be afforded in the very short term i.e. overnight to two weeks, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. It is a statutory limit which Councils must determine in accordance with Section 3 (1) of the Local Government Act 2003. The Authorised Limits for the Council are set out in the table below:

	2014/15 Estimate (£000's)	2015/16 Estimate (£000s)	2016/17 Estimate (£000's)	2017/18 Estimate (£000's)
Borrowing	15,000	20,000	20,000	20,000
Other Long Term Liabilities	459	459	459	459

Sources of Borrowing: Temporary borrowing can take place via money brokers, from building societies, banks, local authorities, individuals and commercial organisations. If the Council decides to borrow on a long term basis to fund capital expenditure all borrowing options available will be reviewed.

Interest Rates, Loan Periods and Types of Loan: The most favourable options will be selected, depending upon market conditions prevailing at the time of borrowing. The aim will be to minimise the impact upon revenue accounts and to achieve efficient management of the Council's debt portfolio. Advice will be taken, as appropriate from the Council's treasury management advisors. The Council will be eligible for loans at a reduced rate, around 20 basis points less than normally available, (the Treasury Certainty Rate) from the PWLB during 2014/15.

- **Limits on Interest Rate Exposures (fixed and variable interest rates)**

The following limits will apply in relation to the Council's interest rate exposure. They relate to interest on both borrowings and investments. These limits are intended to reduce the risk of the Council suffering unduly from significant adverse fluctuations in interest rates.

Limit on Fixed Interest Rate Exposures expressed as a percentage of total borrowings/investments

	Borrowing		Investments	
	Upper	**Lower**	**Upper**	**Lower**
2014/15	100%	0%	100%	0%
2015/16	100%	0%	100%	0%
2016/17	100%	0%	100%	0%
2017/18	100%	0%	100%	0%

Limit on Variable Interest Rate Exposures expressed as a percentage of total borrowings/investments

	Borrowing		Investments	
	Upper	**Lower**	**Upper**	**Lower**
2014/15	100%	0%	100%	0%
2015/16	100%	0%	100%	0%
2016/17	100%	0%	100%	0%
2017/18	100%	0%	100%	0%

In relation to both investing and borrowing fixed rate investments and loans may be anything between 0% and 100% of the total, with the same proportions being permitted for variable rate loans – in effect there is no limit on each type. This enables maximum flexibility to be afforded to your officers to take advantage of prevailing interest trends to obtain the best deal for the Council.

- **Total Principal Funds Invested for Periods Greater than 364 days**

The Council will determine the maximum periods for which funds may prudently be committed. Investments will be for whatever period is considered appropriate by your officers at the time that the investment is made. Regard will be had to relevant matters such as likely future capital values and the Council's forecast need to realise investments in the future in order to finance capital expenditure or for any other purpose.

There will be a limit placed upon the amount which may be invested for periods in excess of 364 days. Investments will be regarded as commencing on the date the commitment to invest is entered into, rather than on the date on which the funds are paid over to the Counterparty.

This Treasury Indicator is intended to limit the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment of sums invested. It consists of the amount that it is considered prudent to have invested for a period greater than 364 days in each of the next three years. The limits as set out in the table below will apply:

	£000's
Beyond 31/03/15	5,000
Beyond 31/03/16	5,000
Beyond 31/03/17	5,000

It should be noted that in practice the sums available for investment are unlikely to be sufficient to allow amounts of this magnitude to be invested for such extended periods. In fact at present investments are being restricted to periods of 3 months or less due to cash flow fluctuations and on account of continuing uncertainties with regard to the credit worthiness of counterparties with whom investments could be placed.

3.0 Leasing

3.1 Requirement for the Year

In previous years the Council has acquired some items of plant by means of leases and major items of equipment may also be obtained in the same way.

The total amount of leases to be entered into during the year will depend upon the replacement requirement for vehicles and plant and upon any new requirements arising during the year. It will also depend upon the attraction of leasing as opposed to other forms of finance which may be available, in particular in comparison with contract hire terms for vehicles and plant and the availability and relative cost of internal sources of funding. The appropriate form of finance will be chosen to obtain the best deal for the Council at the time that the requirement arises.

3.2 Period and Type of Lease

An appropriate lease period will be chosen in relation to the type of asset concerned and to achieve the most satisfactory revenue account impact. Fixed or variable rate leases may be taken out; which is chosen will depend upon market conditions prevailing at the time the decision is made.

3.3 Leasing Consultants

The current contract with the Council's Treasury Management advisors includes the provision of leasing advice.

4.0 Treasury Management Training

4.1 Training Courses

The training need of treasury management officers are periodically reviewed. Officers engaging in Treasury Management activities will also attend any suitable courses/seminars provided by the Council's Treasury Management Advisors and any other appropriate organisations where it is considered that this will increase or complement their expertise in relation to the Treasury Management function.

4.2 Members Training

It is envisaged early in the Financial Year commencing 1 April 2014, to run some training sessions for Members in respect of Treasury Management.

5.0 Policy on the use of External Service Providers

Your officers work with the Council's Treasury Management Advisors to monitor market trends and to advise on strategic considerations affecting borrowing strategy and sums available for investment and any other relevant treasury management matters. Quarterly meetings are held to ensure quality of service is maintained and to develop a constructive relationship. The current contract expires on 31 March 2014. The Procurement process has now commenced to seek quotations for our Treasury Management Advisory Service for a three year contract commencing 1 April 2014.

6.0 Prospects for Interest Rates

Part of the service provided by the Council's advisors is to assist the Council to formulate a view on interest rates. The following table and information gives the current provider's central view:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.40
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.50	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.20	5.00	5.10
Jun 2016	0.50	3.30	5.10	5.20
Sep 2016	0.75	3.50	5.10	5.20
Dec 2016	1.00	3.60	5.10	5.20
Mar 2017	1.25	3.70	5.20	5.30

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 and 2 of 2013 to surpass all expectations. Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure.

A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury mangement implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond; and
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future.

7.0 Treasury Management Scheme of Delegation

Full Council

- receiving and reviewing the Treasury Management Strategy /Annual Investment Strategy/Minimum Revenue Provision Strategy on an annual basis (including updates and revisions at other times).
- receiving the Annual Treasury Outturn Report.

Transformation and Resources Overview and Scrutiny Committee

- scrutiny of the Treasury Management Strategy prior to submission to Full Council.

Audit and Risk Committee

- scrutiny of Treasury Management performance including receiving and reviewing the mid-year report.
- reviewing the Annual Outturn Report

8.0 Treasury Management role of the Section 151 Officer

The S151 (responsible) officer role includes:

- 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.

ANNEX A

Investment Strategy 2014/15

1.0 Introduction

1.1 Background

This Strategy is compiled according to the DCLG'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") It sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments (and finally what return can be obtained consistent with these priorities).

In accordance with the above and in order to minimise the risk to investments, the Council has below (in Annex B) clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. Using the advisor's ratings service, bank's ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify any modifications.

The aim of this strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

1.2 Possible Revisions to the Strategy

The initial Strategy may be replaced with a revised Strategy at any time during the year in cases where any treasury management issues (including investment issues) need to be brought to the attention of Full Council.

2.0 Security of Investments

2.1 Specified and Non-Specified Investments

In accordance with the Investment Guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which of two categories, Specified or Unspecified, the proposed investment falls into.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
- A body that is considered of a high credit quality (such as a bank or building society).

Non-Specified Investments – These investments are any other type of investment (i.e. not defined as Specified above). If the Council were to consider placing funds in any other type of investment which would be categorised as Non-Specified, the security of the capital sum would be the paramount concern. The same requirements as to credit ratings relating to Specified Investments will apply, and in appropriate cases the advice of the Council's treasury management advisors will be sought. In considering whether it is prudent to place funds for longer than 12 months in 2014/15 and in determining the period of such investment the principles and limits set out under "3.0 Liquidity of Investments" below will apply together with the counterparty listing criteria set out in Annex B.

2.2 Use of Treasury Management Advisor's Creditworthiness Service

This Council uses the creditworthiness service provided by the Council's treasury management advisors. This service has been progressively enhanced over previous years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not just rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system for which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments and are therefore referred to as durational bands.

All credit ratings will be monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the treasury advisor's creditworthiness service.

2.3 Approved Investment Instruments

The Council has laid down a list of approved investment instruments in the Schedule to Treasury Management Practice 4 (TMP4). These are reproduced below:

Extract from Schedule to TMP 4

"The following types of investments will be permitted, fixed cash deposits, certificates of deposit issued by organisations falling into the categories listed under TMP1 (5), registered British Government Securities (Gilts) and Money Market Funds. Officers of the Council may only invest in Fixed Cash Deposits and Money Market Funds."

Because fund managers are not currently employed this means that investments in 2014/15 will be limited to fixed cash deposits, money market funds and the Debt Management Account Deposit Facility (DMADF). The DMADF is guaranteed by HM Government and offers investors a flexible and secure facility to supplement their existing range of investment options.

3.0 Liquidity of Investments

3.1 Maximum Investment Periods

The Council will determine the maximum periods for which funds may prudently be committed. Investments will be for whatever period is considered appropriate by your officers at the time that the investment is made. Regard will be had to relevant matters such as likely future capital values and the Council's forecast need to realise investments in the future in order to finance capital expenditure or for any other purpose. The principles concerning time limits contained in the Schedule to the Treasury Management Practices will be followed.

There will be a limit placed upon the amount which may be invested for periods in excess of 364 days. This limit has been set using one of the Prudential Indicators required by the Chartered Institute of Public Finance and Accountancy Prudential Code for Capital Finance in Local Authorities. Investments will be regarded as commencing on the date the commitment to invest is entered into, rather than on the date on which the funds are actually paid over to the Counterparty.

This Prudential Indicator is intended to limit the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment of sums invested. It consists of the amount that it is considered prudent to have invested for a period greater than 364 days in each of the next three years. The limits as set out in the table below will apply:

	£000's
Beyond 31/03/14	5,000
Beyond 31/03/15	5,000
Beyond 31/03/16	5,000

It should be noted that in practice the sums available for investment are unlikely to be sufficient to allow amounts of this magnitude to be invested for such extended periods. In fact at present investments are being restricted to periods of 3 months or less due to fluctuations in cash flow and on account of continuing uncertainties with regard to the credit worthiness of counterparties with whom investments could be placed.

4.0 Return on Investments (Yield)

4.1 Current Economic Climate

Due to ongoing global economic uncertainties, investment returns are likely to remain relatively low during 2014/15. Interest rates on Instant access deposit accounts and Notice accounts are currently more attractive than interest rates being offered by the market. However, banks are now beginning to reduce the rates they offer on their instant access and notice accounts since they can access cheap funding via the Government's "Funding for Lending" scheme.

4.2 Prudent Investments

Priority will be given to the security and liquidity of all investments. Consistent with achieving the proper levels of security and liquidity, the highest rate of return will be sought for any investment made.

5.0 Specific Strategy 2014/15

5.1 Capital Receipts in Hand and Balances Held in Reserves

Amount Available for Investment

It is estimated that the amount of receipts in hand, plus reserve balances, and available for investment at 1 April 2014 will be in the region of £4,300,000. The reasons why this has reduced since the last annual strategy have been explained above in Section 2.4 of the Treasury Management Strategy Report.

Period of Investment

This will be determined in accordance with 3.0 (Liquidity of Investments) above.

Forward Commitment

This involves agreeing in advance to place an investment with a borrower at a future specified date at an agreed interest rate. It is done in order to obtain the benefit of what are considered to be better rates than might be available later, when physical funds are likely to be available. No forward commitment has taken place to date in 2013/14. It is possible that forward commitment may be employed in 2014/15 in instances where market conditions warrant it.

Return to be Obtained

The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments made.

5.2 Investment of Money Borrowed in Advance of Need

It is not the Council's intention to undertake any borrowing in advance of need during 2014/15.

5.3 Other Temporary Surpluses

Amount Available for Investment
In addition to the receipts and reserve balances referred to above, the Council will, from time to time, find itself in possession of funds in excess of its immediate requirements. This may occur, for example, if income is received at a faster rate than expenditure is incurred or if grant payments are made to the Council in advance of the expenditure being incurred to which they relate. This is not a permanent state of affairs and the extent to which it will occur and, therefore, the amounts available at any time cannot be predicted.

Prudent financial management dictates that these temporary surpluses should be invested or used to redeem temporary loans if any are outstanding, rather than being left to lie idle in the Council's bank account. Such surpluses will normally be placed in a short term deposit account with the Council's bankers. Occasionally, where the size of the surplus warrants, short term investments will be made in the market.

Capital receipts which arise during the year, as a result of asset sales, will be held in the Capital Receipts Account pending use until we invest the money in the money markets. When any useable receipts are required to finance capital expenditure or for any other purpose, the appropriate amount will be disinvested and so utilised.

Period of Investment
All temporary surplus funds will be invested on a short term basis in order that they will be available for use as and when required. This requirement has been recognised in the calculation of the Prudential Indicator relating to total principal sums invested for periods longer than 364 days set out earlier.

Return to be obtained
The aim will be to obtain the maximum rate of return which is available at the time the investment is made with an external body. This must, however, be consistent with the safeguarding of the Council's capital. At all times the risk to the Council will be minimised.

5.4 Current Treasury Management Advisors-view on Interest Rates

Part of the service provided by the Council's Treasury Management Advisors is to assist the Council in the formulation of a view on interest rates, the following gives their view of the Bank of England base rate for financial year ends (March):

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

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

2014/15	0.50%
2015/16	0.50%
2016/17	0.75%
2017/18	2.25%

ANNEX B

Counterparty Listing Criteria

This Council applies the creditworthiness service provided by our Treasury Management Advisors. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads (where applicable) for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties.These colour codes are used by the Council to determine the duration for investments and are therefore referred to as durational bands. The service provided now gives an improved level of security for making investment decisions. It is also a service which the Council would not be able to replicate using in house resources.

The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

The green limit was formerly for 3 months but the Financial Conduct Authority set (July 2013) a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.

This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. This Council will not use the approach suggested by CIPFA to determine creditworthy counterparties as Moodys are much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The advisor's creditworthiness service uses a wider array of information other than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the advisor's creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap (where applicable) against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

Local Authorities

The Council will also consider using other Local Authorities when making fixed investments.

Counterparty Limits

In accordance with Treasury Management Practice (TMP) 4 – Approved Instruments, Methods and Techniques, a £7,000,000 counterparty limit will be used during 2014/15. This limit will not apply to the Government's Debt Management Account Deposit Facility offered by the Debt Management Office.

Minimum Revenue Provision Policy

1.0 Background

Local Authorities are required to set aside a minimum amount from revenue to fund capital expenditure, this is known as the Minimum Revenue Provision. This means that the Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement) through a revenue charge (the Minimum Revenue Provision).

Department of Communities and Local Government (DCLG) Regulations and Guidance have been issued which require the Full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, who can make their own choice, so long as there is a prudent provision.

2.0 Minimum Revenue Provision Policy in respect of Finance Leases

The introduction of International Financial Reporting Standards in 2011/12 resulted in some leases being reclassified as finance leases instead of operating leases. This resulted in a positive Capital Financing Requirement and as such the need to set aside a Minimum Revenue provision.

In accordance with the revised DCLG Guidance this Council will set aside an annual MRP equal to the amount of the lease that has been taken to the Balance Sheet to reduce the finance lease liability i.e. the principal amount of the finance lease. This approach will produce an MRP charge which is the same as Option 3 in the guidance (Asset Life Method – annuity method). The revised guidance aims to ensure that authorities are in the same position as if the change in accounting standards had not occurred.

3.0 Minimum Revenue Provision Policy – Other Capital Expenditure

3.1 Capital Financing Requirement (CFR)

The Council's Capital Financing Requirement is currently negative. This means that there is no requirement to set aside a MRP for the redemption of external debt. The Prudential Indicator for the CFR, shown at 2.2 in the Treasury Management Strategy, indicates that the CFR will become positive and begin to increase for the period covered by the Strategy. This is based on the assumption that there will be a general overall increase in expected capital expenditure, which cannot be funded from revenue or capital resources. Accordingly, the Council needs to determine the option it will employ to make the necessary MRP in respect of the amount borrowed, if this occurs.

3.2 Option for making Minimum Revenue Provision.

The most appropriate of the four options permitted by the Regulations is Option 3, the Asset Life Method, within which there are two further options, an equal instalment method and an annuity method of which the equal instalment method would be the more appropriate. This provides for the Council to make revenue provision over the estimated life of the asset for which the borrowing is undertaken, in effect the charge will be the amount borrowed in respect of the asset divided by the number of years of estimated life of the asset. It will result in an equal annual amount to be charged as MRP. Accordingly, if any borrowing does take place, this method of calculation of MRP will be used. It should be noted that MRP does not commence until the year following that in which the asset concerned became operational.

Treasury Management – Glossary of Terms

- **Basis Points –** there are 100 basis points to 1%.

- **CDS –** 'Credit Default Swap' is an additional assessment of credit worthiness by providing a risk analysis of changes in credit quality as perceived by the market.

- **CIPFA –** the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.

- **Counterparty –** an institution with whom a borrowing or investment transaction is made.

- **Credit Rating –** is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. The main rating agencies are Fitch. Standard and Poor's and Moody's.

- **DCLG –** Department for Communities and Local Government.

- **DMADF and DMO –** the DMADF is the 'Debt Management Account Deposit Facility' which is a highly secure fixed term deposit account with the Debt Management Office, part of Her Majesty's Treasury.

- **Forward Commitments** - agreeing in advance to place an investment with a borrower at a future specified date at an agreed interest rate.

- **GILTS –** the name given to bonds issued by the UK Government. Gilts are issued bearing interest at a specified rate, however, they are traded on the markets like shares and their value rises of falls accordingly. The 'yield' on a gilt is the interest paid divided by the market value of that gilt.

- **Leasing** - a lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.

- **Liquidity –** relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.

- **Money Market Funds (MMF) –** Money Market Funds are investment funds that are invested by a Fund Manager in a wide range of money market instruments. MMF's are monitored by the official ratings agencies and due to many requirements that need to be fulfilled, the funds usually receive the highest quality rating (AAA) so provide minimal risk. They are very flexible and can be withdrawn in the same way as any other call deposit.

- **MRP –** the Minimum Revenue Provision represents the revenue charge for the repayment of debt.

- **PWLB –** the Public Works Loan Board is a statutory board that is run within the UK Debt Management Office (DMO), it's function is to lend money to Local Authorities and other prescribed bodies.

- **Supranational Bonds –** bonds issued by institutions such as the European Investment Bank.

REVENUE BUDGET 2014/15

Submitted by: Executive Director (Resources and Support Services)

Portfolio: Finance and Resources

Wards(s) affected: All

Purpose of the Report

To inform the Committee of the current proposals being considered to balance the 2014/15 revenue budget.

Recommendations

(a) **That the proposals as set out in the appendix to the report be noted and any comments be forwarded to the Cabinet for further consideration.**

Reasons

To enable the Committee to review the proposals and to determine whether any comments are to be forwarded to the Cabinet for further consideration.

1. Background

1.1 The Council's Medium Term Financial Strategy (MTFS), approved by Cabinet on 16 October 2013 and considered at your last meeting on 6 November indicated that there would be a budget "gap" of £2.170m in respect of 2014/15 and that this would need to be closed in order to produce a balanced budget.

1.2 There have been a small number of changes made to the MTFS since its approval in October, reducing the gap by £121,000 to £2.049m. These are set out in the table below.

Change	£'000
Superannuation now required to be paid on overtime as from 1 April 2014	50
Reduction in Housing Benefits and Local Council Tax Support Administration Subsidy payable in 2014/15 as notified by Department of Work and Pensions and Department for Communities and Local Government	90
Superannuation contribution rate likely to be less than forecast	(111)
Removal of additional contribution to Revenue Investment Fund in 2014/15	(100)
Reduction in amount required for Contingencies	(50)
Total	**(121)**

2. Proposed Savings and Funding Strategies to eliminate the Budget Gap for 2014/15

2.1 The Budget Review Group and your officers have been identifying and considering ways of eliminating this gap. As a result of this work, a number of savings and funding strategies have been identified and agreed with managers as being feasible and sustainable. The proposed savings, totalling £2.049m, are outlined in the table below and set out in detail in Appendix 1 to enable the Committee to review the proposals and forward any comments it wishes to make to the Cabinet for further consideration.

Category	Amount	Comments
	£'000	
Procurement	259	Smarter procurement and reductions in the amount of supplies procured
Additional Income	158	Includes new sources of income and additional income arising from increased activity. This amount is additional to the amount of £96,000 included in the MTFS in respect of a general 2% increase in fees and charges.
Good Housekeeping Efficiencies	181	Various savings arising from more efficient use of budgets
Staffing Efficiencies	488	No redundancies arise from these proposals.
Better Use of Assets	115	Demolition of former Sainsburys site and sale of Jubilee1.
New Homes Bonus funding	208	Contribution to revenue budget from New Homes Bonus funding.
Council Tax Freeze Grant	70	Based on the Government's announcement of 1% for all local authorities who propose a Council Tax freeze.
Alternative Sources of Finance/Other Savings	570	Additional Business Rates retained, reduction in grants and contributions to external bodies, effect of forecast Council Tax Base increase.
Total	**2,049**	

3. Timetable

3.1 Set out in the table below are the key dates of the events still to take place before the budget for 2014/15 is finally approved.

When	Who	What
3 December	TROSC	First review of draft savings plans and feedback from the budget consultation
11 December	Cabinet	Feedback from the budget consultation
18-24 December ??	All	Local Government Financial Settlement
14 January	Scrutiny Café (all members)	Scrutiny of the first draft of the overall budget proposals
15 January	Cabinet	Consideration of draft budget proposals
22 January	TROSC	Scrutiny of the draft budget proposals
5 February	Cabinet	Final budget proposals to be recommended for approval by Full Council
26 February	Full Council	To approve the budget

TROSC - Transformation and Resources Overview and Scrutiny Committee

4. List of Appendices

Appendix 1: Savings and Funding Strategies

Appendix 1 – 2014/15 Savings and Funding Strategies Being Considered (will require robustness checks and final review)

Reference	Service Area	Description	£000's	% of Budget Line(s)	Detail
			Procurement		
P1	Communications	Multi Functional Devices	38	53.7%	Contract savings for 2014/15 and 2015/16 only - require reinstatement for commencement of new contract from 2016/17
P2	Communications	Printing and publicity	3	2.9%	Savings generated from the centralisation of the Council's print and publicity budgets and the resulting challenges to purchasing
P3	Business Imp. and Partnerships	Procurement savings not identified in other services	100	*	Procurement savings identified via Procurement Group (grounds maintenance, building cleaning/materials, housing advice)
P4	Customer and ICT Services	ICT Software application purchase and maintenance	18	4.7%	Continued negotiation, rationalisation and renewal of ICT application/software/hardware contracts
P5	Internal Audit	Computer audit contract and software	5	30.8%	Saving on computer audit contract following annual procurement and reduction in requirement for software
P6	Recycling and Fleet	Contract uplifts	66	3.8%	Non application of recycling contract uplifts
P7	Recycling and Fleet	Vehicle costs	20	13.9%	Better procurement of parts and reduction in damage
P8	Housing	Homelessness agreements	9	11.6%	Negotiation and reductions in agreements/contracts held
			259		
			Income		
I1	Various	Income Generation Project	60	*	Potential income generated from commissioning of Deloitte's income generation exercise (inc. additional advertising income from Council assets and licensing fees)
I2	Revenues and Benefits	Summons costs	30	4.8%	Alignment of budget to actual income levels received
I3	Operational Services	Large Coffin Cremations	10	1.3%	Income generated from amendments made to cremator
I4	Leisure and Cultural	Jubilee 2 reduction in net operating cost - prior to increase in fees and charges	18	3.0%	Net reduction in Jubilee 2 operating budget as per the approved business plan
I5	Recycling and Fleet	Recycling credits/contractor payments	40	7.9%	Net reduction in the variance between the amount paid to recycling contractors and the amounts received in recycling credits and material income
			158		

Staffing Related Efficiencies					
S1	Various	Vacant Posts	150	1.0%	Review of current vacant posts contained within the budget
S2	Assets	Assets Restructure	50	4.5%	Restructure of Assets Service
S3	Central Services	Central Services Restructure	50	8.3%	Restructure of Central Services
S4	Human Resources	Human Resources Restructure	50	16.5%	Minor Restructure of Human Resources
S5	Human Resources	Overtime review	100	36.5%	Review of overtime in respect of working practices and terms and conditions
S6	Human Resources	Car Leasing	10	6.9%	Contributions no longer required re. employees leaving the Authority or ending their lease
S7	Human Resources	Corporate Training Budget	10	33.3%	Reduction in the Councils corporate training budget - efficiencies gained through more electronic courses and sharing costs with other local authorities
S8	Finance	Pay Award	11	1.0%	Chief Officers and Heads of Services 2013/14. No pay award made, therefore, realignment of base budget
S9	Operational Services	Streetscene (Development and Enforcement) restructure	9	4.7%	Flexible retirement of Assistant Environmental Officer - redistribution/reallocation of tasks
S10	Leisure and Cultural	Replacement of Sports and Active Lifestyles Manager post with Grade 10 post	12	4.9%	Minor restructure following Sports and Active Lifestyles Manager post holder leaving the Authority
S11	Customer and ICT Services	ICT temporary staff	15	37.5%	Reduction in requirement for external expertise following negotiation and renewal of ICT contracts
S12	Customer and ICT Services	IT/Customer Support staff - reduction in hours	13	1.8%	Reduction in hours for 3 employees
S13	Planning	Post entry training	4	66.7%	Review of service has deemed there is not a requirement
S14	Housing	Post entry training	4	100.0%	Review of service has deemed there is not a requirement
			488		
Good Housekeeping					
G1	Chief Executive	Expenses, catering and conference/seminars	1	31.3%	Reduction in budgetary requirements for general employee and office requirements (e.g. equipment, conference/seminar costs, catering)
G2	Communications	Equipment hire, repair and purchase, postage	3	28.7%	Reductions in the levels of equipment hire, repair and purchase, postages and general office supplies in the Print Room, Research and Communications
G3	Business Imp. and Partnerships	Performance	5	29.8%	Rationalisation of fees paid for external reviews
G4	Leisure and Cultural	Community Recreation Service Minibus/Van, in service training	3	24.0%	Reduction in contract payments for minibus/van. Requirement for in service training within Leisure Management has reduced

G5	Operational Services	Administration costs, equipment purchases and rental income	5	33.9%	Reduction in budgetary requirements for equipment purchases and other fees for services. Reduction in budgetary requirement in the Landscape service for equipment purchases. Income from rents of land and open spaces in excess of the budget set for the previous 2 financial years
G6	Operational Services	Improvements, alterations and materials	17	14.3%	Reduction in requirement in Parks, Highways Amenities and Town Centre/Roundabout planting for improvements, alterations and materials. Income from rents of lands and open spaces in excess of the budget set for the 2 previous years
G7	Customer and ICT Services	Books and publications, uniforms and scan coin machines	6	40.0%	Reduction in requirement for books and publications. Uniforms now only required on a rolling basis. Reduction in maintenance costs of scan coin payment machines
G8	Customer and ICT Services	Staffordshire Connects	7	30.4%	Reduction in the 'core team' element of the Councils contribution to Staffordshire Connects
G10	Human Resources	Corporate subscription, long service awards and recruitment	5	25.6%	Corporate subscription previously paid no longer utilised. Reduction in long service awards in line with actual spend in 2013/14. Reduction in recruitment requirements, use of internet/intranet sites to advertise
G11	Finance	VAT advice	2	40.0%	Reduction in usage and contract for VAT advice
G12	Finance	Contribution to SCC	5	100.0%	End of contribution required to be made to SCC re. partnerships and engagement
G13	Revenues and Benefits	Greater recovery of housing benefit overpayments	100	74.1%	Recovery rates from housing benefits overpayments have increased significantly over recent years. Realignment of budget
G14	Assets	CCTV	3	5.6%	Reduction in maintenance costs for CCTV service
G15	Assets	Electricity and cleaning	7	24.9%	Savings made on electricity and contract cleaning regarding commercial properties and Kidsgrove Town Hall
G17	Assets	Civil Contingencies Unit	8	29.6%	Reduction in support provided
G18	Housing	Christmas decorations	4	8.5%	To reflect actual current costs and saving in electricity from revised arrangement
			181		
			Better Use of Assets		
B1	Assets	Ryecroft Site	70	100.0%	Demolition of ex-Sainsbury's site - savings in business rates and holding costs
B2	Assets	Sale of Jubilee Baths site	45	100.0%	Revenue savings (business rates, maintenance) from sale of site
			115		

Alternative Sources of Finance/Other

C1	Corporate	Business Rates Retention Scheme	450	**	Increase in business rates retainable by the Council as per NNDR1 calculations and the new Local Government financial arrangements introduced on 1st April 2013
C2	Corporate	Funding Review	40	10.0%	Review of grants and contributions given by the Council
C3	Corporate	Council Tax Grant	70	**	New Council Tax Freeze Grant
C4	Corporate	Pericles ICT Development Fund contribution	35	**	2013/14 is the final year of the agreed contribution to the ICT Development Fund following the purchase of the new system
C6	Corporate	Council Tax Base Adjustments	45	**	Adjustments to Council Tax base following provision of new homes (per New Homes Bonus) and Council Tax reforms
C7	Corporate	New Homes Bonus contribution	208	**	Further additional funding to be received in 2014/15 - to be confirmed
			848		
		Grand Total	***2,049***		

**** Unable to determine % at current time***

*****Not applicable***

SCRUTINY COMMITTEE
WORK PLAN

Committee Name:	Transformation and Resources Overview and Scrutiny Committee
Chair: **Vice-Chair:**	Cllr Elizabeth Shenton Cllr Sylvia Burgess
Portfolio Holder(s) Covering the Committee's Remit:	Cllr Gareth Snell – Communications, Policy and Partnerships Cllr Mike Stubbs – Finance and Resources Cllr Terry Turner – Economic Development, Regeneration & Town Centres
Work Plan Correct As At:	7 November 2013

Date of Meeting	Item	Reason for Undertaking
3 December 2013 (Agenda dispatch 22 November 2013)	The Budget Consultation Process	As considered in 2012, to receive information relating to the outcomes of the budget consultation process.
	Asset Management Strategy	To look at the financial implications of the Asset Management Strategy.
	Treasury Management Strategy	Received annually as part of the budget setting process.
	First Draft Savings Plans 2014/15	To consider the First Draft of the Savings Plans for 2014/2015
	Portfolio Holder(s) Question Time	An opportunity for the Committee to question the Portfolio Holder(s) on their priorities and work objectives for the next six months and an opportunity to address any issues or concerns that they may currently be facing. It's also an opportunity for the Portfolio Holder(s) to flag up areas within their remit that may benefit from scrutiny in the future e.g. policy development.

Agenda Item 9

Date of Meeting	Item	Reason for Undertaking
14 January 2014	Scrutiny Café – date for information, there will be no agenda published.	
22 January 2014 (Agenda dispatch 10 January 2014)	Revenue and Capital Budget 2014/15	To consider the final version of the Revenue and Capital Budget 2014/15 before it is considered by Council on 26 February 2014.
	Scale of Fees and Charges	Received annually by the Committee as part of the budget setting process.
	Financial and Performance Management Report Quarter 3 2013/14	To continue to monitor and scrutinise performance alongside finances.
	Council Plan	To receive an update on the Council Plan
26 March 2014 (Agenda dispatch 14 March 2014)	Annual Review of the Scrutiny Committee's Work	To evaluate and review the work undertaken during 2013/14.
	Portfolio Holder(s) Question Time	An opportunity for the Committee to question the Portfolio Holder(s) on their priorities and work objectives for the next six months and an opportunity to address any issues or concerns that they may currently be facing. It's also an opportunity for the Portfolio Holder(s) to flag up areas within their remit that may benefit from scrutiny in the future e.g. policy development.

Task and Finish Groups:	Review of the Constitution Working Group – action to look at scrutiny committee remits
Future Task and Finish Groups:	
Suggestions for Potential Future Items:	Modernisation of the Post Office Network Council Plan Universal Credit

Transformation and Resources Overview and Scrutiny Committee is responsible for:

- Communications and consultation
- Council structure and democracy and constitutional review
- Customer contact and customer service centres
- Member development and support
- Neighbourhood and locality working
- Partnerships: Newcastle Partnership Strategic Board
- Performance management and monitoring
- Revenues and benefits
- Putting people first
- Risk champion
- Transformation programme
- Accountancy
- Budget
- Capital and revenue expenditure
- Efficiency savings
- Financial monitoring
- Health and safety champion
- Human Resources
- Information and communication technology
- Procurement champion
- Treasury management
- Workforce development

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