Agenda Item

CABINET

16th February 2011

COUNCIL

22nd February 2011

Report of the Leader of the Council

CORPORATE VISION, PRIORITIES PLAN, BUDGET & MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2014/15 INCLUDING TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2011/12.

Purpose

- To approve the Single Corporate Vision & Strategic Priorities for 2011/12 **(attached at Appendix A)**.

- To approve the recommended package of budget proposals **(attached at Appendix B)** to enable the Council to agree the:

    - General Services Revenue budget and Council Tax for 2011/12;

    - Housing Revenue Account (HRA) budget for 2011/12;

    - Four Year Capital Programme;

    - Four Year Medium Term Financial Strategy (MTFS).

- To comply with the requirement of the Council's Treasury Management Policy in reporting to Council the proposed strategy for the forthcoming year and the Local Government Act 2003 with the reporting of the Prudential Indicators **(attached at Appendix N)**.

This is a key decision as it affects two or more wards and involves expenditure over £50k.

Executive Summary

This budget report incorporates the Single Corporate Vision & Strategic Priorities of the Authority which are reflected within the Budget 2011/12 & Medium Term Financial Strategies (both Revenue & Capital). The Single Corporate Vision & Corporate Priorities are clear and accessible by stating what we aim to achieve, how we will do it and the resources we will use to support these aims.

At their meeting of 12th January 2011, the Cabinet endorsed the proposed Vision, Priorities and Principles as recommended by the Local Strategic Partnership (LSP) Executive.

The Single Vision is focused on longer term, aspirational goals of the Council. The Strategic Priorities identify, in the short to medium term, the key areas for improvement which will change in future years as the Council aligns local aspirations, central government policy and its performance.

In light of the national economic situation and the indications of significant constraints in public spending following the 2010 Comprehensive Spending Review (CSR) in these times of Government austerity, a revised approach to the budget setting process was approved by Cabinet on 29th September 2010.

A zero growth budget was approved while protecting front line services (as far as possible) and a continued commitment to locality working (with ongoing support for the most vulnerable and those affected by the recession).

Subsequently, Government funding levels for the next 2 years were notified at significantly reduced levels - with significant uncertainties over future grant levels. In light of this and to align with the Government's spending review period, a balanced 4 year medium term financial strategy is proposed – for General Fund, Housing Revenue Account and Capital Programmes.

The Council has sufficient funds held in reserves and balances which allowed it to plan its approach to budget savings and efficiencies in the short term. The need to concentrate on high-level activity and spend before looking at detailed budgets was approved – including a programme of short-term and long-term activity reviews to identify measures to help the Council cope with grant & income reductions in the coming years.

Members endorsed the approach to find efficiency savings through a series of short-term and long-term work-stream reviews:

- Short Term work-stream reviews to identify what we can do now e.g. review of reserves, vacancy management.

- Long Term gains / work-stream reviews covering :-

    - ❖ Best use of Assets (including ICT usage);

    - ❖ Working methods;

    - ❖ Support Services;

    - ❖ Shared Services;

    - ❖ Capital programme (including invest to save /opportunities);

    - ❖ Income Generation.

Following indications from the CSR 2010, a Voluntary Redundancy scheme was also put in place resulting in the inclusion of planned savings of over £3m from the removal of 35 (26 FTE) posts from the establishment. Savings from a further 5 FTE vacant posts and 2 posts associated with the Market have also been identified in preparing the budget proposals.

This will lead to some significant service re-alignments as well as the associated workload demands to ensure that measures are in place to mitigate against the potential risks highlighted within the risk assessment summarised on page 6 and sensitivity analysis at **Appendix L**.

This budget and associated forecast will ensure that appropriate resources are focussed on areas we have identified as priorities. This is an ongoing process and work is continuing to identify further areas where resources can be realigned to priority areas based on the views of local people.

Through Performance Management the Council will identify the key performance measures to ensure we deliver the improvements highlighted in our Strategic Priorities.

These measures will be regularly monitored and published so that the Council can demonstrate progress and be held accountable for its performance.

The headline figures for 2011/12 are:

- A General Services net revenue budget requirement of £8,716,280 a reduction of 15.8%;

- A transfer of £699,350 from General Fund (GF) balances;

- A transfer of £679,180 from Housing Revenue Account (HRA) balances;

- The Band D Council Tax would be set at £149.55, the same level as in 2010/11;

- An average rent of £71.30 which represents an increase of £4.12 (6.1% on the current average rent of £67.18) in line with the Government's Rent Restructuring rules (based on a 50 week rent year), equating to £68.52 on an annualised 52 week basis;

- A General Fund Capital Programme of £1.274m (£2.683m over 4 years);

- A Housing Capital Programme of £4.277m (£18.636m over 4 years).

The achievement of a balanced 4 year Medium Term Financial Strategy is a major achievement as the Council, like others, has planned to deliver its budget process in light of unprecedented adverse economic conditions with a great deal of uncertainty over future investment & income levels such as car parking, markets, land charges and corporate property rents. It is also facing increased financial demands from Central Government for service improvements in areas such as local democracy and transparency – as well as substantial reductions in Government grant support in the future.

The budget incorporates the Council's commitment to minimising the effects of the economic downturn on key service provision. An important part of our budget process is identifying areas of our work where we can make savings by reviewing the way we deliver services to make them more efficient.

The challenges affecting the medium term financial planning process, which add a high level of uncertainty to budget projections, arise from:

a) Future Revenue Support Grant levels (from 2013/14 onwards);

b) The planned removal of the Housing Subsidy system, the timing of the introduction of self financing for the HRA and the level of debt allocation the Council would have to take together with the associated impact on the revenue account.

c) The impact of any further uncertainty over future interest rate levels and their impact on investment income / treasury management;

d) The severity of the recession and the impact it has had and still could have on the Council's income streams;

e) While the Government has announced a pay freeze for 2011/12 & 2012/13 (& essentially a freeze also in place for 2010/11), the impact of inflation on pay settlements and other contractual arrangements for future years is less certain;

f) The level of sustainable savings from the Voluntary Redundancy process and impact on business continuity;

g) Finalisation of the expected outcomes and impact on the Council's financial position from the programme of short-term and long-term workstream reviews commissioned by Cabinet to identify measures to help the Council cope with grant & income reductions in the coming years; and

h) While the Council capitalised the estimated impairment loss from the Council's investments in Icelandic Banks in 2009/10 (the impact of the capitalisation is to charge the estimated losses over a 20 year budgeting period) finalisation of the financial impact is still subject to the likely impact of repayment levels in future years. This particularly pertinent in respect of investments in Glitnir where legal proceeding through the Icelandic legal system are underway.

In light of these uncertainties and issues arising from the sensitivity analysis (attached at **Appendix L**), it is felt prudent to include within the budget a number of specific contingency budgets (aligned to the specific uncertainties, where appropriate) to ensure some stability in the financial planning process (as detailed in **Appendix M**).

The assumptions made in the production of the MTFS are based on the best information available at the time and are subject to change. These will be monitored and reviewed on an ongoing process.

The Treasury Management Strategy Statement & report attached at **Appendix N** outlines the Council's prudential indicators for 2011/12 – 2013/14 and sets out the expected Treasury operations for this period.

The main issues for Members to note are:

- That Members understand the implications on treasury operations when setting the budget and Medium Term Financial Strategy;

- Members should be provided with access to relevant training – Members are also personally responsible for ensuring they have the necessary skills and training.

The aim is for all Members to have ownership and understanding when making decisions on Treasury Management matters.

- With regard to Counterparty selection for investment, rather than adopt a Lowest Common Denominator (LCD) methodology, a broader counterparty evaluation criteria is used as recommended by Sector (the Council's Treasury Management consultants).

- Members should be aware of the potential changes proposed by the Government to the Housing Revenue Account Subsidy system. Under the proposed new rules, Councils would instead keep all the rents they collect. In return for this greater freedom, the Council would take on additional housing debt (estimated in our case to be in the region of £50m) which would require a substantial increase in our borrowing limits and would therefore require formal approval from Council.

Recommendations

That Council approve:

1. **the Single Corporate Vision & Strategic Priorities for 2011/12;**
2. **the proposed revisions to Service Revenue Budgets (Appendix C);**
3. **a General Fund Net Budget Requirement of £8,716,280 for 2011/12 (Appendix E);**
4. **the sum of £17,560 be applied from Collection Fund surpluses in reducing the Council Tax demand in 2011/12 (Appendix E);**
5. **a freeze in the Council Tax level for Tamworth Borough Council for 2011/12 at £149.55 (the same level as in 2010/11) at band D with compensatory funding from the Government;**
6. **an aggregate Council Tax (comprising the respective demands of Tamworth Borough Council, Staffordshire County Council, Staffordshire Police Authority and Stoke-on-Trent and Staffordshire Fire and Rescue Authority) of £1,423.61 at Band D for 2011/12 be noted;**
7. **the Council Tax levels at each band for 2011/12 (Appendix H);**
8. **the sum of £699,350 be transferred from General Fund Revenue Balances in 2011/12;**
9. **the Summary General Fund Revenue Budget for 2011/12 (Appendix E);**
10. **the Provisional Budgets for 2012/13 to 2014/15, summarised at Appendix G, as the basis for future planning;**
11. **other than in emergency, any expenditure which would reduce General Fund Balances below £250,000 will require Council approval;**
12. **Cabinet be authorised to release funding from the General Contingency budget and that the release of funding for Specific Contingency items be delegated to the Corporate Management Team in consultation with the Leader of the Council;**
13. **the proposed HRA Expenditure level of £15.618m for 2011/12 (Appendix D);**

14. rents for Council House Tenants in 2011/12 be increased by an average of £4.12 per week (6.1%), in line with the Governments Rent Restructuring rules;

15. the HRA deficit of £679,180 be transferred from Housing Revenue Account Balances in 2011/12;

16. the proposed 4 year General Fund Capital Programme as detailed in Appendix I to the report;

17. the proposed 4 year Housing Capital Programme as detailed in Appendix J to the report;

18. to delegate authority to Cabinet to approve/add new capital schemes to the capital programme where grant funding is received or there is no net additional cost to the Council;

19. an increase in the capital allowance to £500k, in compliance with the provisions of the Local Government Act 2003, in respect of the intention to pool receipts received as a result of the sale of Housing Land.

20. Approve the Treasury Management Strategy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy 2011/12;

21. Approve the Prudential and Treasury Indicators and Limits for 2011/12 to 2013/14 contained within Appendix 3;

22. Adopt the Treasury Management Practices contained within Appendix 9;

23. Approve the detailed criteria of the Investment Strategy 2011/12 contained in the Treasury Management Strategy contained within Appendix 5 and 6.

Legal implications

The Council's constitution requires Cabinet publish initial proposals for the budget, having first canvassed the views of local stakeholders as appropriate –budget proposals were considered at a Joint Scrutiny Committee meeting on 25th January 2011.

The budget has been set following extensive consultation with the people of Tamworth. This includes feedback from The State of Tamworth Debate, responses from the 'Tamworth Listens' budget consultation exercise & customer feedback.

Proposed amendments to the 2010/11 base budget, as approved by Council on 23rd February 2010, are detailed within the report.

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirements of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

Resources and Value for Money implications

A summary table of all the budget proposals is shown at the end of the report. The General Services Summary Revenue Budget for 2011/12, appears at **Appendix E**. A summary of the resulting budgets over the 4 year period appears at **Appendix G**. Closing balances over 4 years for the General Fund (GF) are estimated at £0.5m, the minimum approved level.

The Summary HRA Revenue Budget for 2011/12 appears at **Appendix D** (including a summary of the resulting budgets over the 4 year period). Closing balances over 4 years for the HRA are estimated at £2.1m – in excess of the minimum approved level of £0.25m. In the longer term, it should be noted that as a result of retention of the Council's Housing stock that in order to ensure HRA balances remain above the minimum approved level of £250k there is a need to identify significant savings of approx. £0.8m per annum over 10 years from 2011/12.

The draft General Fund programme has been formulated based on the predicted available resources. Assuming that the anticipated capital receipts will be received, this leaves a balance of £0.5m available (the minimum approved level).

The Council's uncommitted housing capital resources will effectively be reduced to £0.5m (the approved minimum level) assuming that the planned savings are realised to release the additional revenue contributions to capital spending.

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

In the Corporate Director-Resources view, the budget proposals enclosed within this report include estimates which take into account circumstances and events which are reasonably foreseeable at the time of preparing the budget. In his view, the level of reserves remains adequate for the Borough Council based on this budget and the circumstances in place at the time of preparing it.

Risk implications

Risk	**Control Measure**
Major variances to the level of grant / subsidy from the Government, in light of economic downturn (including specific grants e.g. Benefits admin.);	An estimated reduction in grant levels of 2% p.a. for 2013/14 & 2014/15 has been included; There is also an opportunity for additional New homes Bonus funding in years 3 & 4 which has not been included in the forecast;
New Homes Bonus grant levels lower than estimated;	Partial risk for years 1 & 2 - not included thereafter in order to offset further grant reductions / uncertainty over New Home Bonus scheme;
Potential 'capping' of council tax increases by the Government;	Council tax forecasts are included within this report (2% p.a. from 2012/13) – current indications are that increases above 2.5% may risk 'capping' (confirmed as 3.5% for 2011/12);
Voluntary Redundancy savings not delivered resulting in unbalanced budget;	Agreements made before budget set in February / on average, savings of £25k p.a. per FTE have been included;

Risk	Control Measure
Voluntary Redundancy requests & associated service re-alignments e.g. risk of possible delays and reduced service provision as services re-align their structures and operating processes;	Business case approach including review of service impact (including service reductions) and a full risk assessment has been carried out & measures are in place to mitigate against the potential risks highlighted e.g. redundancies are staggered and compliment e-claim implementation, Transforming Tamworth & other efficiency measures;
The achievement of substantial savings / efficiencies will be needed to ensure sufficient resources will be available to deliver the Councils objectives through the 4 year budget.	A robust & critical risk based review of the budget proposals contained within this report has been undertaken.
Pay awards greater than forecast;	Forecast assumes a pay freeze for 2 years, in line with Government policy, with CPI increases thereafter;
Pension costs higher than planned / Hutton review;	Increases of 0.5% pa have been included with agreement made with Pension Fund following triennial review for next 3 years;
Variation or further reduction in the sales of Council Houses;	A prudent approach has been taken in the estimation of future sales – 5 p.a.;
The potential financial impact arising from the council's investments in Icelandic banks, which have been identified 'at risk';	A prudent provision has been included within the forecasts - further clarification is expected by the end of July 2011;
Capitalisation of impairment on investments in Icelandic banks being approved by DCLG;	A capitalisation directive application was submitted to DCLG and approved in January 2010. This will be subject to ongoing review & finalisation of the impact in the 2009/10 accounts;
Timeliness of recovery of investments funds identified at risk.	The Council is working with the LGA, DCLG & other Authorities in taking appropriate recovery action.

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

Report Author:
Please contact Stefan Garner, Deputy Director Corporate Finance, Exchequer & Revenues, extension 242.

Background Papers:-	**Budget 2010/11 - Council 23rd February 2010**
	Budget Consultation Report, Cabinet 29th September 2010
	Draft Base Budget Forecasts 2011/12 to 2015/16, Cabinet 12th January 2011 / Joint Scrutiny Committee 25th January 2011
	Annual Treasury Report 2009/10
	Treasury Management Practices 2011/12 (Operational Detail)

Appendix A

A SINGLE 'VISION' FOR TAMWORTH

"One Tamworth, Perfectly Placed"
(the People) (the Place)

It has long been a political aspiration for the local partnership arena to see sense and reach agreement on a single, shared "Vision" for Tamworth.

This in turn would be underpinned by high level, evidence based priorities that focused upon both Tamworth (the place) and the communities served by the partner organisations (the people).

The increasing range of reforms, policy and legislative changes and initiatives emanating from the Coalition Government coupled with the worse than forecast reductions in public sector investment presented local government with one of its sternest challenges to date.

As is often the case, such events provide opportunities too and this was no exception. An initiative, originated by the Borough Council initially in conjunction with the County Council, formed the foundation upon which a review was designed to explore and develop options for a range of viable, effective, integrated working methods for both universal services and partnership arrangements that would accommodate the emerging reforms; focus energy and resources upon fewer, more strategic priorities; target resources towards 'prevention' and improve collective efficiency.

The scope of the review was wide ranging, however, the key elements were as follows:

To explore opportunities to develop a shared vision and priorities; to refocus plans, policies and resources; to redefine the partnership environment and to create an 'entity' capable of providing the leadership and direction necessary to achieve local solutions to local issues relating to our ***people*** *and our* ***place.***

At their meeting of 12th January 2011, the Cabinet endorsed the proposed Vision, Priorities and Principles as recommended by the Local Strategic Partnership (LSP) Executive. The single, shared Vision endorsed by all key partners is:

One Tamworth, Perfectly Placed
(the People) (the Place)

Using the most recent validated data and intelligence and with the focus upon prevention and early intervention the following Strategic Priorities and outcomes were also endorsed following recommendation from the LSP Executive.

Strategic Priority 1

To Aspire and Prosper in Tamworth

Primary Outcome

To create and sustain a thriving local economy and make Tamworth a more aspirational and competitive place to do business.

To achieve this, we will:

- Raise the aspiration and attainment levels of young people
- Create opportunities for business growth through developing and using skills and talent
- Promote private sector growth and create quality employment locally
- Brand and market "Tamworth" as a great place to "live life to the full"
- Create the physical and technological infrastructure necessary to support the achievement of this primary outcome.

Strategic Priority 2

To be healthier and safer in Tamworth

Primary Outcome

To create a safe environment in which local people can reach their full potential and live longer, healthier lives.

To achieve this, we will:

- Address the causes of poor health in children and young people;
- Improve the health and well being of older people by supporting them to live active, independent lives;
- Reduce the harm and wider consequences of alcohol abuse on individuals, families and society;
- Implement 'Total Place' solutions to tackling crime and ASB in designated localities;
- Develop innovative early interventions to tackle youth crime and ASB; and
- Create an integrated approach to protecting those most vulnerable in our local communities

The process is continuing and, as it develops will include:

a) Improving the alignment between the Vision, Priorities, Resource Allocation and Achievement;

b) Rationalising the scope and scale of activity to focus upon priorities;

c) Ensuring that each priority contributes tangibly to the corporate Vision and that progress towards achievement can be measured;

d) **S.M.A.R.T.** indicators of progress/success for each set of corporate objectives;

thus enabling transparency and accountability for our citizens.

This budget and associated forecast will ensure that appropriate resources are redirected and focussed on areas we have identified as priorities. This is an ongoing process and work is continuing to identify further areas where resources can be realigned to priority areas based on the views of local people.

Directorate & Operational Service Business Plans will clearly demonstrate a golden thread of key outputs in line with the corporate priorities and objectives. Key Performance indicators & milestones will then be monitored monthly in line with agreed action as part of the Council’s Performance Management Framework.

The Council is providing resources through the Medium Term Financial Strategy & the Capital Programme and Partnership Working to enable the Corporate Vision & Priorities to be delivered.

The formulation of the Financial Planning & Capital Programmes is in line with the Vision, Corporate Priorities and aspirations.

Appendix B

Introduction

The Council's approach to medium term planning aims to integrate the Council's service and financial planning processes. In accordance with that approach this report contains firm proposals for 2011/12 and provisional proposals for the following 3 years.

It is intended that all aspects of the budget should be agreed by Members and so this report details each amendment which is proposed to the 2010/11 budget to arrive at the starting point for 2011/12. The report deals in turn with each of the key elements and towards the end of each section is a summary table. Each of these tables is brought together in the summary and conclusions section at the end of the report.

The Council's medium term financial plan used as the basis for the 2011/12 budget, aimed both to deal with a challenging financial position and to find resources to address the Council's priorities. The approved package was based upon:

- The need to compensate for reduced income levels arising from the unprecedented economic / world events which have lead to the economic downturn / recession;
- Injecting additional resources into corporate priorities;
- Increasing income from council tax and fees and charges;
- Reducing existing services to make way for new ones;
- Making other savings and efficiencies;

Financial Background

The medium term financial planning process is being challenged by the unprecedented economic / world events which have lead to the economic downturn / recession.

There are a number of challenges affecting the Medium Term Financial Planning process for the period from 2011/12 to 2014/15 which add a high level of uncertainty to budget projections. The current uncertainties arise from:

a) Future Revenue Support Grant levels;

b) The planned removal of the Housing Subsidy system, the timing of the introduction of self financing for the HRA and the level of debt allocation the Council would have to take together with the associated impact on the revenue account.

c) The impact of any further uncertainty over future interest rate levels and their impact on investment income / treasury management;

d) The severity of the recession and the impact it has had and still could have on the Council's income streams;

e) While the Government has announced a pay freeze for 2011/12 & 2012/13 (& essentially a freeze also in place for 2010/11), the impact of inflation on pay settlements and other contractual arrangements for future years is less certain;

f) The level of future savings from the Voluntary Redundancy process;

g) Finalisation of the expected outcomes and impact on the Council's financial position from the programme of short-term and long-term workstream reviews commissioned by Cabinet to identify measures to help the Council cope with grant & income reductions in the coming years; and

h) While the Council capitalised the estimated impairment loss from the Council's investments in Icelandic Banks in 2009/10, finalisation of the financial impact is still subject to the likely impact of repayment levels in future years.

In light of these uncertainties and issues arising from the sensitivity analysis (attached at **Appendix L**), it is felt prudent to include within the budget a number of specific contingency budgets (aligned to the specific uncertainties, where appropriate) to ensure some stability in the financial planning process (as detailed in **Appendix M**).

Following review of the sensitivity of the factors within the forecasts, pay award & inflation, interest rate movements together with changes in Government Grant support could all significantly affect the forecast as follows:

Effect of 0.5% movement:	Impact over 1 year +/- £'000	Impact over 4 years + / - £'000
Pay Award / National Insurance (GF)	43	427
Pay Award / National Insurance (HRA)	11	110
Pension Costs	54	535
Inflation / CPI	37	379
Government Grant	0	140
Investment Interest	117	1103
Total	**262**	**2,694**

New Homes Bonus funding has been assumed for 2 years only - potential future grant levels to be used to mitigate any further formula grant reductions in years 3 & 4.

Of the total investments at risk plus accrued interest (£8.15m) a total of £3.39m was identified as potentially unrecoverable and capitalised within the 2009/10 financial year. This equates to a potential loss of 41.5%. Should recovery rates increase (following legal proceedings) then the impact of a 10% variance would be £815k - reducing the 20 year capitalisation charge by c.£41k per annum. Should current legal proceedings favour the Council then a potential recovery rate of 88% and a reduction in capitalisation of £2.4m (£121k p.a.) - considered Medium to High Risk.

A 1% change in Band D Council Tax equates to approximately £34k per annum. Each £1 increase in the Band D Council Tax would raise approximately £23k per annum.

GENERAL FUND

The Local government finance settlement figures for Tamworth for 2011/12 (& provisional for 2012/13) have recently been announced and shows that Government financial support (Revenue Support Grant (RSG) plus redistributed national non-domestic rate income) totals £5.214m, a decrease of 23.8%, which means that Government support will decrease by £1.632m when compared to last year. The provisional grant for 2012/13 is £4.605m, a further reduction of 11.7%.

The operation of the floor (which damps the results so that no Council loses significantly) mean that the Council will be paid additional grant of £193k in 2011/12, when compared with the level which would be due if floors were not in force.

For future years, in light of indications of further grant reductions, it has been assumed that there will be a reduction in formula grant at a year on year rate of 2.0% per annum. It is expected that should grant levels deteriorate further than anticipated, this would be mitigated as new homes bonus funding has been included for the first 2 years only.

Based on this and coupled with the anticipated growth in Tamworth’s tax base, Government financial support will reduce over the 4 year Comprehensive Spending Review (CSR) period, as shown in the table below.

External Finance	**2011/12 £’000**	**2012/13 £’000**	**2013/14 £’000**	**2014/15 £’000**
External Finance Projections	5,214	4,605	4,513	4,423

Technical Adjustments

Revisions have been made to the 2010/11 base budget in order to produce an adjusted base for 2011/12 and forecast base for 2012/13 onwards. These changes, known as technical adjustments have been calculated to take account of:

- virements approved since the base budget was set;
- the removal of non-recurring budgets from the base;
- the effect of inflation;
- changes in payroll costs and annual payroll increments;
- changes in expenditure and income following decisions made by the Council;
- other changes outside the control of the Council such as changes in insurance costs and reduction in grant income; and
- The ‘Zero base budgeting’ review of income levels;

They are summarised in **Appendix F** and the main assumptions made during this exercise are shown in **Appendix K**.

They have been separated from the policy changes, as they have already been approved or are largely beyond the control of the Council, and are summarised below:

Technical Adjustments	**2011/12 £’000**	**2012/13 £’000**	**2013/14 £’000**	**2014/15 £’000**
Base Budget B/Fwd	11,482	9,953	9,743	9,605
Committee Decisions	-1,187	-163	-246	-75
Inflation	48	44	52	54
Other	-563	-284	-265	-248
Pay Adjustments (Including pay award / reduction of 5% for vacancy allowance)	101	193	321	312
Revised charges for non-general fund activities	72	0	0	0
Total / Revised Base Budget	9,953	9,743	9,605	9,648

Policy Changes

The policy changes provisionally agreed by Council in February 2010 have been included in the technical adjustments. **A list of the revised policy changes is attached at Appendix C and summarised below:**

	Policy Changes	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Chief Executives Office	Chief Executive	-11.81	-0.11	-0.35	-0.37
	Assistant Chief Executive	-0.03	0.00	0.00	0.00
	Customer Services	-14.86	-6.38	-1.10	-1.14
	Organisational Development	-17.38	-36.28	-2.04	-2.08
	Performance & Corporate Relations	-37.09	-3.74	-1.44	-1.49
	Solicitor to the Council	-36.36	-20.26	1.07	-1.73
Resources	Corporate Director	-10.82	-8.46	-0.57	-0.59
	DD Corporate Finance	18.19	-66.51	374.96	122.06
	AD Business Processes	-17.85	-32.57	-1.68	-1.73
	Internal Audit Services	-6.00	-4.50	-0.83	-0.86
	Benefits	-89.12	-48.90	-4.02	-4.18
Community Services	Corporate Director	-0.12	0.00	0.00	0.00
	DD Assets & Environmental	-106.37	-10.25	-5.20	-5.47
	DD Housing & Health	-23.00	-0.11	-0.58	-0.59
	Partnerships & Community Development	-193.34	-73.24	41.84	-45.23
	Total Cost / Saving (-)	**-545.96**	**-311.31**	**400.06**	**56.60**
	Cumulative Cost / Saving (-)	**-545.96**	**-857.27**	**-457.21**	**-400.61**

Capping

In the past, the Government set a ‘cap’ or budget requirement limit, for each council, which was announced before councils set their budget requirements. The Government no longer does this but it still has the power to require councils to set a lower budget requirement if it considers the budget requirement and council tax have gone up by too much. The Local Government Act 1999 introduced these new reserve powers which are more flexible than the previous capping powers.

Consideration of the likely level of council tax increases over the 4 year period is needed to avoid potential ‘capping’ by the Government and to ensure that balances are maintained at the minimum approved level of £500k. The indications are that a potential 'capping' threshold will be at 3.5% - however, the Government have indicated that it would offer grant support for the 4 year CSR period should Council freeze Council tax levels for 2011/12. There is no mention that this arrangement would continue thereafter.

However, for future years potential ‘capping’ of the increase by the Government or a proposed local council tax referendum/veto needs to be considered when setting future Council Tax increases. Tamworth’s Council tax is currently £149.55 which is £43 below the average of the council tax charges of similar councils (from the Cipfa nearest neighbour grouping).

The indications are that a potential 'capping' threshold may be around 2.5% in future years - following the freeze in 2011/12.

Council Tax

Last years medium term financial plan identified ongoing increases of 4.0% per annum from 2011/12.

For 2010/11 Tamworth’s Band D Council Tax stands at £149.55. This is the second lowest of 16 similar Councils in the Cipfa ‘nearest neighbour’ family group and is approx. £43 below the group average.

The Council’s provision for collection losses currently stands at 1.5% and no change is proposed. In order to meet the on-going expenditure requirements the Council will have to increase the underlying income base.

A 1% change in Band D Council Tax equates to approximately £34k per annum. Each £1 increase in the Band D Council Tax would raise approximately £23k per annum. ***A Council Tax freeze in 2011/12 at £149.55 is proposed (with a minimum increase in line with CPI of 2.0% per annum thereafter).***

The Band D Council Tax would remain at £149.55 for 2011/12. Future levels of council tax & the impact on the medium term forecast would be as follows:

Year:	2011/12	2012/13	2013/14	2014/15
Forecast:	£'000	£'000	£'000	£'000
Surplus(-)/Deficit	699	706	952	1,031
Balances Remaining / Overdrawn (-)	**3,191**	**2,485**	**1,533**	**502**
£ Increase	0.00	2.99	3.05	3.11
% Increase	0.0%	2.0%	2.0%	2.0%
Note: Resulting Band D Council Tax	149.55	152.54	155.59	158.70

which indicates potential balances over £500k (the minimum approved level) forecast as remaining over the 4-year period. As current capping guidance indicates a potential 'capping' threshold of 3.5%, this is considered a low risk option.

Also available to the Council to support expenditure otherwise funded from council tax are surpluses arising from the Council's share of surpluses within the council tax collection fund. It is proposed that all available surpluses be used, as shown in the table below (and that the relevant sums be made available to the other Precepting Authorities – the County Council, Fire & Rescue and Police Authority).

Council Tax	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Council Tax Income	3,485	3,570	3,657	3,746
Collection Fund Surplus	18	10	10	10

The County Council, Police Authority and Fire & Rescue Authority are due to finalise their budgets for 2011/12 during February 2011.

The impact of the Borough Council tax proposals is shown for each council tax band in **Appendix H**.

Balances

At the Council meeting on 29 February 2000 Members approved a minimum working level of balances of £500k (General Fund).

At 31 March 2011 general fund revenue balances are estimated to be £3.9m, compared with £2.9m anticipated a year ago.

Other than in case of emergency full Council approval would be required for any expenditure that would reduce balances below £250k. Balances held above the £250k level would be designated as a general contingency, from which expenditure could be approved by Cabinet. The minimum level of balances for planning purposes will remain at around £500k.

Summary and Conclusions

These budget proposals reflect the need to compensate for reduced income levels arising from the economic downturn / recession and significant reductions in Government funding, a desire to continue to address the Council's priorities / issues identified by Members and at the same time to seek continuous improvement in service delivery.

In addition, there remains a degree of uncertainty in a number of areas including future local authority pay settlements, the potential for interest rate changes, the future local government finance settlements and the outcome of the Icelandic Banks situation.

A summary of all the budget proposals is shown in the table below. The summary revenue budget for 2011/12, appears at **Appendix E**. A summary of the resulting budgets over the 4 year period appears at **Appendix G.**

Summary	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	£'000	**£'000**	**£'000**	**£'000**
Base Budget	9,953	9,743	9,605	9,648
Policy Changes	-546	-857	-457	-401
Inflationary & recharge impact of the policy changes	9	5	-16	-37
Net Expenditure	9,416	8,891	9,132	9,210
Financing:				
RSG/NNDR	5,214	4,605	4,513	4,423
Collection Fund Surplus	18	10	10	10
Council Tax Income	3,485	3,570	3,657	3,746
Total Financing	8,717	8,185	8,180	8,179
Net Surplus (-) / Deficit	699	706	952	1,031
Balances Remaining	3,191	2,485	1,533	502
Est. Balances B/Fwd £3.890m				

HOUSING REVENUE ACCOUNT

Technical Adjustments

The 2010/11 approved budget has been used as a base to which amendments have been made reflecting the impact of technical adjustments. The impact of the policy led changes, will be added to this figure to produce the HRA budget for 2011/12.

The following table illustrates the current position:

Technical Adjustments	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Base Budget	-531	-77	355	778
Committee Decisions	-25	409	219	136
Inflation	99	79	125	127
Other	353	-100	48	46
Pay Adjustments	36	44	31	26
Revised charges for non-general fund activities	-9	0	0	0
Total	**-77**	**355**	**778**	**1,113**

Revisions have been made to the 2010/11 base budget in order to produce an adjusted base for 2011/12 and forecast base for 2012/13 onwards. These changes, known as technical adjustments, are largely beyond the control of the Council and have been calculated to take account of:

- virements approved since the base budget was set;
- the removal of non-recurring budgets from the base;
- the effect of inflation;
- changes in payroll costs and annual payroll increments;
- changes in expenditure and income following decisions made by the Council;
- other changes outside the control of the Council such as changes in insurance costs, reduction in grant income and the impact of the HRA determinations which are set annually by Central Government; and
- The 'Zero base budgeting' review of income levels.

and are summarised in **Appendix D**.

Proposals

The proposed policy changes proposed for inclusion in the base budget for the next 4 years are detailed at **Appendix C**.

The proposals will mean that balances will remain above the approved minimum level of £250k over the 4 year period.

Summary	Projected 2011/12 £'000	Projected 2012/13 £'000	Projected 2013/14 £'000	Projected 2014/15 £'000
Net Surplus (-) / Deficit	-77	355	778	1,113
Policy Changes	762	-154	-3	83
Inflationary & recharge impact of policy changes	-6	-7	-8	-7
Surplus (-) / Deficit	679	194	767	1,189
Balances Remaining	4,268	4,074	3,307	2,118
Est. Balances B/Fwd £4.947m				
Per Council, 23rd February 2010	4,585	3,396	1,913	251

When the budget for 2010/11, and indicative budgets for 2011/12 to 2012/13, were approved by Council in February 2010, it was highlighted that following retention of the Housing stock, then there would be a need to identify significant savings (approx £870k p.a. was estimated from 2010/11 onwards) over the longer term.

Following the Stock Transfer ballot result, a series of service reviews were approved and are currently underway - as outlined within the Housing Stock Retention Strategy - with the aim to ensure quality and effectiveness of the service as well as to identify cost savings to address the projected shortfall (Minimum recommended balances are £250k) of £8.1m shortfall over 10 years.

There is still a large degree of uncertainty over the future financial position of the HRA arising from:

- Government support - The forecast is based on continuation of the current subsidy scheme – it is likely that (subject to legislation during 2011) a self financing model will be introduced from 2012/13. Details are awaited but would significantly alter the projections.

- The finalisation of the planned service review programme including the results of the planned consultation with tenants over the future capital investment needs for the housing stock;

Rent Restructuring

The introduction of rent restructuring in April 2003 requires the Council to calculate rents in accordance with a formula on a property by property basis and account separately for rental payments and payments which are for services (for example grounds maintenance, upkeep of communal areas, caretaking) within the total amounts charged.

On 25th February 2003 the Council received a report detailing the implications of the rent restructure framework. This framework removes the flexibility to independently set rent levels from Social Landlords and replaces this with a fixed formula based on the value of the property and local incomes. It is the aim of the framework to ensure that by a pre-set date all social landlord rents have reached a 'target rent' for each property that will reflect the quality of accommodation and levels of local earnings. In achieving this target rent councils are annually set a "limit rent" which restricts the level of rent increase in any one year.

Housing rents have been increased in accordance with the Rent Restructuring Framework.

Rental Income

Under Rent Restructuring rules, the Government sets an average limit rent. Rent increases are effectively capped to the limit rent level; any increase beyond that level is heavily penalised by withdrawal of Housing subsidy. In simple terms the effect of penalties beyond the "allowed" rent increase means that approximately 60p of each £1.00 raised is lost from subsidy payable.

Balances

The forecast level of balances at 31st March 2011 is £4.947m. The impact on balances of the adjustments outlined in this report would be as follows:

Summary	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Proposed Withdrawal from / Addition to (-) Balances	679	194	767	1,189
Balances Remaining	4,268	4,074	3,307	2,118

This would mean that closing balances, over the 4 year period, would be over the approved minimum level of £250k.

The analysis at **Appendix D** details the overall Housing Revenue Account budget resulting from the recommendations contained within this report.

CAPITAL PROGRAMME 2011/12 to 2014/15

Following a review of the Capital Programme approved by Council on 23rd February 2010, a revised 4 year programme has been formulated including additional schemes which have been put forward for inclusion.

Each scheme has been assessed with regard to:

- the contribution its delivery makes towards the achievement of the Council's corporate priorities;
- the achievement of Government priorities and grant or other funding availability;
- the benefits in terms of the contribution to the Council's Corporate Objectives and compliance with the Corporate Capital Strategy requirements of:

    1. Invest to save
    2. Maintenance of services and assets
    3. Protection of income streams
    4. Avoidance of cost.

The current de-minimus for capital expenditure is £10k per capital scheme.

General Fund

It is estimated that approximately £2.7m (excluding the £0.5m approved minimum balance) will be available during the period to 2014/15 for future capital spending (including a proportion of the useable capital receipts generated from the sale of council housing).

The draft General Fund programme has been formulated based on the predicted available resources. Assuming that the anticipated capital receipts will be received, this leaves a balance of £0.5m available (the minimum approved level).

The capital reserve / receipts value is deemed to include the value of any minor disposals up to a value of £100k per annum in line with the Acquisitions and Disposals Policy.

Details of the proposed capital programme is shown in **Appendix I.**

The proposed programme includes a contribution from sale of council house receipts of £387k over the 4 years.

Housing

The proposed 4 year Housing Capital Programme is now attached at **Appendix J**.

The Council's uncommitted housing capital resources will effectively be reduced to £0.5m (the approved minimum level) assuming that the planned savings are realised to release the planned additional revenue contributions to capital spending.

Under current regulations 50% of capital receipts from disposals of housing land have to be paid to the Government pool. However, where such a receipt is received and the Council resolves to use it for a specified project provided for under the regulations i.e. affordable housing, then the Council can retain the receipt in full.

In order that the receipt is retained and used for affordable housing, the Council must resolve to create a capital allowance as part of its budget – Council on 22nd February 2005 approved the creation of a capital allowance of £0.5m which has now been diminished to £148k. It is proposed to increase this back to £0.5m.

Summary of Table Appendices

APPENDIX C

Budget Process 2011/12 – Proposed Policy Changes

DIRECTORATE	Service	Sheet No.	Budget Changes 11/12 £'000	Budget Changes 12/13 £'000	Budget Changes 13/14 £'000	Budget Changes 14/15 £'000
Chief Executive	Chief Executive	**1**	-11.81	-0.11	-0.35	-0.37
	Assistant Chief Executive	**2**	-0.03	-	-	-
	Customer Services	**3**	-14.86	-6.38	-1.10	-1.14
	Organisational Development	**4**	-17.38	-36.28	-2.04	-2.08
	Performance & Corporate Relations	**5**	-37.09	-3.74	-1.44	-1.49
	Solicitor to the Council	**6**	-36.36	-20.26	1.07	-1.73
Resources	Corporate Director Resources	**7**	-10.82	-8.46	-0.57	-0.59
	DD Finance, Exch. & Revenues	**8**	18.19	-66.51	374.96	122.06
	AD Business Processes	**9**	-17.85	-32.57	-1.68	-1.73
	Internal Audit Services	**10**	-6.00	-4.50	-0.83	-0.86
	Benefits	**11**	-89.12	-48.90	-4.02	-4.18
Community Services	Deputy Chief Executive	**12**	-0.12	-	-	-
	DD Assets and Environment	**13**	-106.37	-10.25	-5.20	-5.47
	DD Housing & Health - GF	**14**	-23.00	-0.11	-0.58	-0.59
	DD Communities, Planning & Partnerships	**15**	-193.34	-73.24	41.84	-45.23
TOTAL			**-545.96**	**-311.31**	**400.06**	**56.60**

DIRECTORATE	Service	Sheet No.	Budget Changes 11/12 £'000	Budget Changes 12/13 £'000	Budget Changes 13/14 £'000	Budget Changes 14/15 £'000
Community Services	Housing Revenue Account	**16**	762.46	-916.70	150.87	86.83
TOTAL			**762.46**	**-916.70**	**150.87**	**86.83**

Budget Process 2011/12 - Policy Changes Summary Staffing Implications

DIRECTORATE	Service	Sheet No.	Budget Changes 11/12 FTE	Budget Changes 12/13 FTE	Budget Changes 13/14 FTE	Budget Changes 14/15 FTE
Chief Executive	Chief Executive	**1**	-0.50	-	-	-
	Assistant Chief Executive	**2**	-	-	-	-
	Customer Services	**3**	-1.50	-	-	-
	Organisational Development	**4**	-2.00	-	-	-
	Performance & Corporate Relations	**5**	-1.00	-	-	-
	Solicitor to the Council	**6**	-2.38	-	-	-
Resources	Corporate Director Resources	**7**	-0.81	-	-	-
	DD Finance, Exch. & Revenues	**8**	-2.69	-	-	-
	AD Business Processes	**9**	-2.00	-	-	-
	Internal Audit Services	**10**	-1.00	-	-	-
	Benefits	**11**	-4.43	-	-	-
Community Services	Deputy Chief Executive	**12**	-	-	-	-
	DD Assets and Environment	**13**	-6.39	-	-	-
	DD Housing & Health - GF	**14**	-	-	-	-
	DD Communities, Planning & Partnerships	**15**	-7.14	-	-	-
TOTAL			-31.84	-	-	-

DIRECTORATE	Service	Sheet No.	Budget Changes 11/12 FTE	Budget Changes 12/13 FTE	Budget Changes 13/14 FTE	Budget Changes 14/15 FTE
Community Services	Housing Revenue Account	**16**	-1.10	-	-	-
TOTAL			**-1.10**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 1

DIRECTORATE:		Service
	Chief Executive	**Chief Executive**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
CE1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-11.77	-0.11	-0.35	-0.37
CE2	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.04			
Total Savings / Increased Income			-11.81	-0.11	-0.35	-0.37
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant						
Total Legislative & Statutory Requirements			-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		**-11.81**	**-0.11**	**-0.35**	**-0.37**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
CE1	Voluntary Redundancy - salary savings		-0.50			
	TOTAL		**-0.50**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 2

DIRECTORATE:		Service				
	Chief Executive	**Assistant Chief Executive**				
Item No	**Proposal/(Existing Budget)**	**Implications**	**Budget Change 11/12 £'000**	**Budget Change 12/13 £'000**	**Budget Change 13/14 £'000**	**Budget Change 14/15 £'000**
Savings / Increased Income (Reduced expenditure, increased income streams)						
ACE1	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.03			
Total Savings / Increased Income			-0.03	-	-	-
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant						
Total Legislative & Statutory Requirements			-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		-0.03	-	-	-

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
	TOTAL		-	-	-	-

Budget Process 2011/12 - Policy Changes

Sheet 3

DIRECTORATE:		Service
	Chief Executive	**Customer Services**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
CS1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-14.34	-6.38	-1.10	-1.14
CS2	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.52			
Total Savings / Increased Income			-14.86	-6.38	-1.10	-1.14
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant						
Total Legislative & Statutory Requirements			-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
Total Corporate Priorities & Objectives in line with the vision)			-	-	-	-
Other Expenditure (optional)						
Total Other Expenditure			-	-	-	-
	Total New Items / Amendments		-14.86	-6.38	-1.10	-1.14

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
CS1	Voluntary Redundancy		-1.50			
	TOTAL		-1.50	-	-	-

Budget Process 2011/12 - Policy Changes

Sheet 4

DIRECTORATE:		Service
	Chief Executive	**Organisational Development**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
OD1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-17.26	-46.28	-2.04	-2.08
OD2	Human Resources	Contingency/backfill budget established as a result of redundancy included above		10.00		
OD3	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.12			
Total Savings / Increased Income			-17.38	-36.28	-2.04	-2.08
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant						
Total Legislative & Statutory Requirements			-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		**-17.38**	**-36.28**	**-2.04**	**-2.08**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
OD1	Voluntary Redundancy - salary savings		-2.00			
	TOTAL		**-2.00**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 5

DIRECTORATE:		Service
	Chief Executive	**Performance & Corporate Relations**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
PCR1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-37.00	-3.74	-1.44	-1.49
PCR2	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.09			
Total Savings / Increased Income			-37.09	-3.74	-1.44	-1.49
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant						
Total Legislative & Statutory Requirements			-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
Total Corporate Priorities & Objectives in line with the vision)			-	-	-	-
Other Expenditure (optional)						
Total Other Expenditure			-	-	-	-
	Total New Items / Amendments		-37.09	-3.74	-1.44	-1.49

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
PCR1	Voluntary Redundancy - salary savings		-1.00			
	TOTAL		**-1.00**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 6

DIRECTORATE:		Service
	Chief Executive	**Solicitor to the Council**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
SOL1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-25.97	-29.99	1.40	-1.38
SOL2	Land Charges/Conveyancing & RTB	Contingency/backfill budget established as a result of redundancy included above		10.00		
SOL3	Vacant Posts Review - salary savings	Reduction in staffing through identification of vacant posts which are no longer required	-7.91	-0.27	-0.33	-0.35
SOL4	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-2.48			
	Total Savings / Increased Income		-36.36	-20.26	1.07	-1.73
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
	Total Legislative & Statutory Requirements		-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-
Corporate Priorities & Objectives in line with the vision)						
Total Corporate Priorities & Objectives in line with the vision)			-	-	-	-

Other Expenditure (optional)						
Total Other Expenditure			-	-	-	-
	Total New Items / Amendments		-36.36	-20.26	1.07	-1.73

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
SOL1	Voluntary Redundancy - salary savings		-2.00			
SOL3	Vacant Posts Review - salary savings		-0.38			
	TOTAL		-2.38	-	-	-

Budget Process 2011/12 - Policy Changes

Sheet 7

DIRECTORATE:		Service
	Resources	**Corporate Director Resources**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
CDR1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-10.81	-8.46	-0.57	-0.59
CDR2	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.01			
	Total Savings / Increased Income		-10.82	-8.46	-0.57	-0.59
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
	Total Legislative & Statutory Requirements		-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-

Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		-10.82	-8.46	-0.57	-0.59

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
CDR1	Voluntary Redundancy - salary savings		-0.81			
	TOTAL		**-0.81**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 8

DIRECTORATE:		Service
	Resources	**DD Finance, Exch. & Revenues**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
CER1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-15.55	-9.50	-1.92	-2.00
CER2	Vacant Posts Review - salary savings	Reduction in staffing through identification of vacant posts which are no longer required	-30.04	-0.50	-1.12	-0.94
CER3	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.09			
CER4	Audit Fees	Reduction in fees chargeable by Audit Commission	-13.00			
	Total Savings / Increased Income		-58.68	-10.00	-3.04	-2.94
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
CER5	Increased Government Grant Income	New Homes Bonus grant funding	-156.00	-86.00	242.00	
CER6	Council Tax freeze grant	Government support for CSR period for council tax freeze in 2011/12	-87.13			
	Total Legislative & Statutory Requirements		-243.13	-86.00	242.00	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-
Corporate Priorities & Objectives in line with the vision)						
Total Corporate Priorities & Objectives in line with the vision)			-	-	-	-
Other Expenditure (optional)						
CER7	Corporate Finance - Natural Wastage	Removal of existing savings target not achievable	250.00	125.00	125.00	125.00
CER8	Corporate Finance - General Contingency	Re-alignment existing budgets	70.00	-95.51	11.00	
Total Other Expenditure			320.00	29.49	136.00	125.00
	Total New Items / Amendments		**18.19**	**-66.51**	**374.96**	**122.06**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
CER1	Voluntary Redundancy - salary savings		-1.00			
CER2	Vacant Posts Review - salary savings		-1.69			
	TOTAL		**-2.69**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 9

DIRECTORATE:		Service
	Resources	**AD Business Processes**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
BP1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-15.90	-32.57	-1.68	-1.73
BP2	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-1.95			
	Total Savings / Increased Income		-17.85	-32.57	-1.68	-1.73
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
	Total Legislative & Statutory Requirements		-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		**-17.85**	**-32.57**	**-1.68**	**-1.73**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
BP1	Voluntary Redundancy - salary savings		-2.00			
	TOTAL		**-2.00**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 10

DIRECTORATE:		Service
	Resources	**Internal Audit Services**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
IA1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-5.97	-4.50	-0.83	-0.86
IA2	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.03			
	Total Savings / Increased Income		-6.00	-4.50	-0.83	-0.86
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
	Total Legislative & Statutory Requirements		-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		**-6.00**	**-4.50**	**-0.83**	**-0.86**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
IA1	Voluntary Redundancy - salary savings		-1.00			
	TOTAL		**-1.00**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 11

DIRECTORATE:		Service				
	Resources	**Benefits**				
Item No	**Proposal/(Existing Budget)**	**Implications**	**Budget Change 11/12 £'000**	**Budget Change 12/13 £'000**	**Budget Change 13/14 £'000**	**Budget Change 14/15 £'000**
Savings / Increased Income (Reduced expenditure, increased income streams)						
BEN1	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-88.15	-48.90	-4.02	-4.18
BEN2	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.97			
	Total Savings / Increased Income		-89.12	-48.90	-4.02	-4.18
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
	Total Legislative & Statutory Requirements		-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		**-89.12**	**-48.90**	**-4.02**	**-4.18**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
BEN1	Voluntary Redundancy		-4.43			
	TOTAL		**-4.43**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 12

DIRECTORATE:		Service
	Community Services	**Deputy Chief Executive**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
DCE1	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangements for the procurement of supplies	-0.12			
	Total Savings / Increased Income		-0.12	-	-	-
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
	Total Legislative & Statutory Requirements		-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		-0.12	-	-	-

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
	TOTAL		-	-	-	-

Budget Process 2011/12 - Policy Changes

Sheet 13

DIRECTORATE:		Service
	Community Services	**DD Assets and Environment**

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Savings / Increased Income (Reduced expenditure, increased income streams)						
AE1	Savings from outsourcing the Market Contract	Revised market operations as approved by Cabinet 12/01/11	-21.02	-2.07	-2.15	-2.34
AE2	Vacant Posts Review - salary savings	Reduction in staffing through identification of vacant posts which are no longer required	-35.83	-1.02	-1.13	-1.16
AE3	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-47.01	-7.16	-1.92	-1.97
AE4	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangments for the procurement of supplies	-2.51			
	Total Savings / Increased Income		-106.37	-10.25	-5.20	-5.47
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
	Total Legislative & Statutory Requirements		-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		-106.37	-10.25	-5.20	-5.47

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
AE1	Outsourcing Markets Contract		-2.00			
AE2	Vacant Posts Review		-2.00			
AE3	Voluntary Redundancy		-2.39			
	TOTAL		**-6.39**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes

Sheet 14

DIRECTORATE:		Service
	Community Services	**DD Housing & Health - GF**

Item No	**Proposal/(Existing Budget)** (in priority order within Sections)	**Implications** (In terms of delivering Corp.Priorities / Continuous Improvement)	**Budget Change 11/12 £'000**	**Budget Change 12/13 £'000**	**Budget Change 13/14 £'000**	**Budget Change 14/15 £'000**
Savings / Increased Income (Reduced expenditure, increased income streams)						
HH1	Salary savings following review of Strategic Housing staffing structure	Reduction in costs following review	-23.00	-0.11	-0.58	-0.59
Total Savings / Increased Income			-23.00	-0.11	-0.58	-0.59
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
Total Legislative & Statutory Requirements			-	-	-	-
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
Total VFM			-	-	-	-

Item No	Proposal/(Existing Budget)	Implications	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
Total Corporate Priorities & Objectives in line with the vision)			-	-	-	-
Other Expenditure (optional)						
Total Other Expenditure			-	-	-	-
	Total New Items / Amendments		-23.00	-0.11	-0.58	-0.59

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
	TOTAL		-	-	-	-

Budget Process 2011/12 - Policy Changes **Sheet 15**

DIRECTORATE:		Service
	Community Services	**DD Communities, Planning & Partnerships**

Item No	**Proposal/(Existing Budget)** (in priority order within Sections)	**Implications** (In terms of delivering Corp.Priorities / Continuous Improvement)	**Budget Change 11/12 £'000**	**Budget Change 12/13 £'000**	**Budget Change 13/14 £'000**	**Budget Change 14/15 £'000**
Savings / Increased Income (Reduced expenditure, increased income streams)						
CPP1	Savings from Belgrave Sport Centre Options following end of Joint Use Agreement	Extended free public swim and provision of sports activity (Cabinet 20/10/10)	-40.74			
CPP2	Savings from review of Playsport Delivery	Continued provision of Special Needs Scheme and offer Main Stream to meet current demand	-12.28			
CPP3	Saving from Sport Development.	Revised funding arrangements to support club development	-15.00			
CPP4	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-103.17	-72.71	-4.35	-4.46
CPP5	Vacant Posts Review - salary savings	Reduction in staffing through identification of vacant posts which are no longer required and temp reduction in hours	-18.85	-0.53	6.19	-0.77
CPP6	Savings re Equipment, Furniture & Materials & Printing & Stationery budgets	Cost reductions following revised arrangments for the procurement of supplies	-3.30			
Total Savings / Increased Income			-193.34	-73.24	1.84	-5.23

Item No	Proposal/(Existing Budget) (in priority order within Sections)	Implications (In terms of delivering Corp.Priorities / Continuous Improvement)	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
CPP7	Community Infrastructure Levy				40.00	-40.00
	Total Legislative & Statutory Requirements		-	-	40.00	-40.00
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-
Corporate Priorities & Objectives in line with the vision)						
	Total Corporate Priorities & Objectives in line with the vision)		-	-	-	-
Other Expenditure (optional)						
	Total Other Expenditure		-	-	-	-
	Total New Items / Amendments		**-193.34**	**-73.24**	**41.84**	**-45.23**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
CPP4	Voluntary Redundancy		-6.64			
CPP5	Vacant Posts Review		-0.50			
	TOTAL		**-7.14**	**-**	**-**	**-**

Budget Process 2011/12 - Policy Changes **Sheet 16**

DIRECTORATE:		Service				
	Community Services	**Housing Revenue Account**				
Item No	**Proposal/(Existing Budget)** (in priority order within Sections)	**Implications** (In terms of delivering Corp.Priorities / Continuous Improvement)	**Budget Change** **11/12** **£'000**	**Budget Change** **12/13** **£'000**	**Budget Change** **13/14** **£'000**	**Budget Change** **14/15** **£'000**
Savings / Increased Income (Reduced expenditure, increased income streams)						
HRA1	Vacant Posts Review - salary savings	Reduction in staffing through identification of vacant posts which are no longer required and reduction in hours	-7.22			
HRA2	Voluntary Redundancy - salary savings	Reduction in staffing identified through the voluntary redundancy business case process	-12.63	-25.83	-1.14	-1.17
	Total Savings / Increased Income		-19.85	-25.83	-1.14	-1.17
Legislative & Statutory Requirements (not optional i.e. Concessionary Fares, Grant etc.)						
HRA3	Impact of Final Determination	a) Subsidy	994.15	167.67	382.31	387.69
		b) Rents	-850.18	-348.82	-356.42	-364.19
		c) Provision for Depreciation	32.34	-3.72	126.12	64.50
	Total Legislative & Statutory Requirements		176.31	-184.87	152.01	88.00
VFM (Investment to deliver medium/long term expenditure savings, increased income streams and/or improved service provision (max payback 3 years)						
	Total VFM		-	-	-	-

Item No	Proposal/(Existing Budget) (in priority order within Sections)	Implications (In terms of delivering Corp.Priorities / Continuous Improvement)	Budget Change 11/12 £'000	Budget Change 12/13 £'000	Budget Change 13/14 £'000	Budget Change 14/15 £'000
Corporate Priorities & Objectives in line with the vision)						
HRA4	Revenue Contribution to Capital Programme	Revenue Contribution to Capital - financed by reduction in Contingency budgets	500.00	-500.00		
HRA5	Contingency budget	Revenue Contribution to Capital - financed by reduction in Contingency budgets		-100.00		
	Total Corporate Priorities & Objectives in line with the vision)		500.00	-600.00	-	-
Other Expenditure (optional)						
HRA6	VR one off costs		106.00	-106.00		
	Total Other Expenditure		106.00	-106.00	-	-
	Total New Items / Amendments		**762.46**	**-916.70**	**150.87**	**86.83**

STAFFING IMPLICATIONS

			11/12 FTE	12/13 FTE	13/14 FTE	14/15 FTE
HRA1	Vacant Posts Review		-0.10			
HRA2	Voluntary Redundancy		-1.00			
	TOTAL		**-1.10**	**-**	**-**	**-**

APPENDIX D

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2011/12

	Base Budget 11/12 £	Technical Adjustments £	Policy Changes £	Revised Budget 11/12 £	Revised Budget 12/13 £	Revised Budget 13/14 £	Revised Budget 14/15 £
Income							
Dwelling Rents	-15,119,760	-14,000	-850,180	-15,983,940	-16,332,760	-16,689,180	-17,053,370
Non-Dwelling Rents	-562,400	82,100	0	-480,300	-492,210	-504,420	-516,940
Charges for Services & Facilities	-878,260	242,650	0	-635,610	-649,020	-662,730	-676,740
Contributions Towards Expenditure	-837,210	20,960	0	-816,250	-816,430	-816,620	-816,810
Total Income	**-17,397,630**	**331,710**	**-850,180**	**-17,916,100**	**-18,290,420**	**-18,672,950**	**-19,063,860**
Expenditure							
Repairs & Maintenance	4,302,710	79,620	0	4,382,330	4,424,830	4,472,030	4,518,590
Supervision & Management	5,303,030	-529,250	86,150	4,859,930	4,565,130	4,632,600	4,698,270
Rents, Rates, Taxes & Other Charges	41,210	-4,760	0	36,450	37,160	37,900	38,670
Increase in Provision for Bad Debts	53,820	0	0	53,820	53,820	53,820	53,820
Housing Subsidy Payable	2,281,980	0	994,150	3,276,130	3,443,800	3,826,110	4,213,800
Depreciation	2,850,870	113,510	32,340	2,996,720	2,993,000	3,119,120	3,183,620
Debt Management Costs	10,540	2,030	0	12,570	13,060	13,620	14,180
Total Expenditure	**14,844,160**	**-338,850**	**1,112,640**	**15,617,950**	**15,530,800**	**16,155,200**	**16,720,950**
Net cost of HRA Services per Authority I&E	**-2,553,470**	**-7,140**	**262,460**	**-2,298,150**	**-2,759,620**	**-2,517,750**	**-2,342,910**
HRA share of Corporate & Democratic Core	2,720	170	0	2,890	2,970	3,060	3,160
HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	21,330	-15,850	0	5,480	5,310	5,310	5,310
Net Cost of HRA Services	**-2,529,420**	**-22,820**	**262,460**	**-2,289,780**	**-2,751,340**	**-2,509,380**	**-2,334,440**
Interest Payable & Similar Charges	1,412,440	149,820	0	1,562,260	1,593,990	1,625,720	1,657,440
Amortisation of Premiums	32,840	0	0	32,840	32,840	32,840	32,840
Interest & Investment Income	-79,380	29,510	0	-49,870	-63,860	-33,400	-4,300
Surplus (-) / Deficit for the year	**-1,163,520**	**156,510**	**262,460**	**-744,550**	**-1,188,370**	**-884,220**	**-648,460**

Statement of Movement on the HRA Balance

Surplus or Deficit for the year	**-1,163,520**	156,510	262,460	**-744,550**	**-1,188,370**	**-884,220**	**-648,460**
Additional Items required to be taken into account:							
Capital Expenditure funded by the HRA	687,260	400,000	500,000	1,587,260	1,546,170	1,814,840	2,000,940
Net transfer to/ (from) earmarked reserves	0	0	0	0	0	0	0
Transfer to/ (from) the Major Repairs Reserve	-54,950	-108,580	0	-163,530	-163,530	-163,530	-163,530
Increase (-) / Decrease in HRA Balances	**-531,210**	**447,930**	**762,460**	**679,180**	**194,270**	**767,090**	**1,188,950**

Appendix E

General Fund Summary Revenue Budget for 2011/12

figures exclude internal recharges & capital charges which have no bottom line impact.	Base Budget 2010/11 £	Technical Adjustments £	Policy Changes £	Budget 2011/12 £
Chief Executive's Office				
Chief Executive	168,070	-130	-11,810	156,130
Assistant Chief Executive	114,070	-6,020	-30	108,020
Head of Customer Services	394,160	-3,320	-14,860	375,980
Solicitor & Monitoring Officer	670,120	13,480	-36,360	647,240
Head of Organisational Development	255,900	7,360	-17,380	245,880
Head Performance & Corporate Relations	282,380	-21,690	-37,090	223,600
Subtotal	1,884,700	-10,320	-117,530	1,756,850
Corporate Director Resources				
Corporate Director Resources	115,500	-3,160	-10,820	101,520
Head of Internal Audit Services	128,910	-11,960	-6,000	110,950
DD Corporate Finance, Exchequer & Revenues	2,130,590	-1,156,070	18,190	992,710
Head of Benefits	194,880	-38,320	-89,120	67,440
AD Business Processes	793,980	43,510	-17,850	819,640
Subtotal	3,363,860	-1,166,000	-105,600	2,092,260
Deputy Chief Executive				
DD Assets & Environment	3,079,730	-521,130	-106,370	2,452,230
DD Communities, Planning & Partnerships	2,235,120	120,750	-193,340	2,162,530
DD Housing & Health GF	778,060	64,850	-23,000	819,910
Deputy Chief Executive	140,460	-8,490	-120	131,850
	6,233,370	-344,020	-322,830	5,566,520
Total Cost of Services	11,481,930	-1,520,340	-545,960	9,415,630
Transfer to/ (-) from Balances	-1,128,640			-699,350
	10,353,290	-1,520,340	-545,960	8,716,280
Financing				
Revenue Support Grant	868,030			1,231,028
National Non Domestic Rates	5,977,784			3,982,583
Collection Fund Surplus	31,333			17,560
Council Taxpayers	3,476,143			3,485,109
Total Financing	10,353,290			8,716,280

Appendix F

General Fund Technical Adjustments

figures exclude internal recharges & capital charges which have no bottom line impact.	Budget 2010/11 £	Technical Adjustments: Virements £	Committee Decisions £	Inflation £	Other £	Pay Adjustments £	External Recharge Changes (non-GF Activities) £	Total Adjustments £	Total Adjusted Base 2011/12 £
Chief Executive's Office									
Chief Executive	168,070	0	0	30	-600	440	0	-130	**167,940**
Assistant Chief Executive	114,070	-7,000	0	430	1,760	300	-1,520	-6,030	**108,040**
Customer Services Manager	394,160	0	-14,450	1,080	-20	41,260	-25,440	2,430	**396,590**
Solicitor & Monitoring Officer	670,120	0	-35,000	440	50,840	940	-3,960	13,260	**683,380**
Head of Organisational Development	255,900	-28,020	0	850	-4,550	4,470	29,990	2,740	**258,640**
Head Performance & Corporate Relations	282,380	0	-14,840	140	-870	-90	-14,620	-30,280	**252,100**
Subtotal	**1,884,700**	**-35,020**	**-64,290**	**2,970**	**46,560**	**47,320**	**-15,550**	**-18,010**	**1,866,690**
Corporate Director Resources									
Corporate Director Resources	115,500	0	0	0	-340	1,070	-4,490	-3,760	**111,740**
Head of Internal Audit Services	128,910	-270	0	430	-180	1,470	-14,230	-12,780	**116,130**
Head of Revenues	1,117,390	-3,020	15,170	50	-946,650	-19,620	15,220	-938,850	**178,540**
DD Corporate Finance, Exchequre & Revenues	1,013,200	8,990	-345,260	520	76,290	7,470	23,430	-228,560	**784,640**
Head of Benefits	194,880	0	-2,500	90	-46,760	10,850	0	-38,320	**156,560**
AD Business Services	793,980	34,320	-10,880	10,460	-10,740	9,030	10,030	42,220	**836,200**
Subtotal	**3,363,860**	**40,020**	**-343,470**	**11,550**	**-928,380**	**10,270**	**29,960**	**-1,180,050**	**2,183,810**
Deputy Chief Executive									
DD Assets & Environmental Services	3,079,730	-5,000	-789,770	27,720	170,070	45,500	38,460	-513,020	**2,566,710**
DD Community, Development & Partnerships	2,235,120	0	-27,000	5,070	148,490	-5,810	0	120,750	**2,355,870**
DD Housing & Health GF	778,060	0	37,000	180	-4,310	2,930	35,560	71,360	**849,420**
Deputy Chief Executive	140,460	0	0	770	4,920	520	-15,980	-9,770	**130,690**
Subtotal	**6,233,370**	**-5,000**	**-779,770**	**33,740**	**319,170**	**43,140**	**58,040**	**-330,680**	**5,902,690**
Grand Total	**11,481,930**	**0**	**-1,187,530**	**48,260**	**-562,650**	**100,730**	**72,450**	**-1,528,740**	**9,953,190**

Appendix G

General Fund 4 Year Revenue Budget Summary

figures exclude internal recharges & capital charges which have no bottom line impact.	**Budget 2011/12**	**Projected Budget 2012/13**	**Projected Budget 2013/14**	**Projected Budget 2014/15**
	£	**£**	**£**	**£**
Chief Executive's Office				
Chief Executive	156,130	157,610	161,820	166,120
Assistant Chief Executive	108,020	109,250	112,210	115,240
Head of Customer Services	375,980	285,170	300,720	316,730
Solicitor & Monitoring Officer	647,240	665,070	655,220	671,830
Head of Organisational Development	245,880	219,330	220,800	227,660
Head Performance & Corporate Relations	223,600	233,320	229,330	235,270
Subtotal	**1,756,850**	**1,669,750**	**1,680,100**	**1,732,850**
Corporate Director Resources				
Corporate Director Resources	101,520	94,690	97,260	99,880
Head of Internal Audit Services	110,950	108,060	111,020	114,020
DD Corporate Finance, Exchequer & Revenues	992,710	516,420	512,370	289,870
Head of Benefits	67,440	77,980	113,150	149,480
AD Business Processes	819,640	802,870	826,940	851,160
Subtotal	**2,092,260**	**1,600,020**	**1,660,740**	**1,504,410**
Deputy Chief Executive				
DD Assets & Environment	2,452,230	2,537,480	2,652,300	2,828,720
DD Communities, Planning & Partnerships	2,162,530	2,123,260	2,163,990	2,155,700
DD Housing & Health GF	819,910	826,400	836,310	844,730
Deputy Chief Executive	131,850	134,000	138,630	143,390
Subtotal	**5,566,520**	**5,621,140**	**5,791,230**	**5,972,540**
Total Cost of Services	**9,415,630**	**8,890,910**	**9,132,070**	**9,209,800**
Transfer to/ (-) from Balances	-699,350	-705,910	-952,220	-1,031,240
Budget Requirement	**8,716,280**	**8,185,000**	**8,179,850**	**8,178,560**
Financing				
Revenue Support Grant	1,231,028	Included below		
National Non Domestic Rates	3,982,583	4,604,958	4,512,859	4,422,602
Collection Fund Surplus	17,560	10,000	10,000	10,000
Council Taxpayers	3,485,109	3,570,042	3,656,991	3,745,958
Total Financing	**8,716,280**	**8,185,000**	**8,179,850**	**8,178,560**

Appendix H

Council Tax levels at each band for 2011/12

	Tamworth Council Tax 2010/11 £	Tamworth Borough Council £	Staffordshire County Council £	Staffordshire Police Authority £	Stoke on Trent and Staffordshire Fire and Rescue Authority £	**Total 2011/12 £**	Total Council Tax 2010/11 £
Demand/Precept on Collection Fund		3,485,109	23,975,423	4,139,023	1,576,194	**33,175,749**	
Council Tax Band							
A	99.70	*99.70*	*685.87*	*118.41*	*45.09*	**949.07**	949.07
B	116.32	*116.32*	*800.19*	*138.14*	*52.61*	**1,107.26**	1,107.26
C	132.93	*132.93*	*914.50*	*157.88*	*60.12*	**1,265.43**	1,265.43
D	**149.55**	*149.55*	*1,028.81*	*177.61*	*67.64*	**1,423.61**	1,423.61
E	182.78	*182.78*	*1,257.43*	*217.08*	*82.67*	**1,739.96**	1,739.96
F	216.02	*216.02*	*1,486.06*	*256.55*	*97.70*	**2,056.33**	2,056.33
G	249.25	*249.25*	*1,714.68*	*296.02*	*112.73*	**2,372.68**	2,372.68
H	299.10	*299.10*	*2,057.62*	*355.22*	*135.28*	**2,847.22**	2,847.22

Appendix I

Proposed General Fund Capital Programme

	2011/12 £	2012/13 £	2013/14 £	2014/15 £	Total £
General Fund Capital Programme					
Resources Directorate					
Technology Replacement	70,000	70,000	70,000	70,000	**280,000**
Local Land & Property Gazetteer	15,000	10,000	-	-	**25,000**
Subtotal	**85,000**	**80,000**	**70,000**	**70,000**	**305,000**
Community Services Directorate					
Private Sector Grants - Disabled Facilities Grants	240,000	240,000	240,000	240,000	**960,000**
Home Repairs Works in Default	120,000	120,000	120,000	120,000	**480,000**
Private Sector Grants - Home Repairs Assistance Grants	-	-	-	-	**-**
Improvements to Marmion House	17,000	17,000	17,000	-	**51,000**
CCTV Camera Renewals (£15k) Crime Reduction & Community Safety (£10k)	25,000	25,000	25,000	25,000	**100,000**
Castle HLF	787,000	-	-	-	**787,000**
Subtotal	**1,189,000**	**402,000**	**402,000**	**385,000**	**2,378,000**
Total General Fund Capital	**1,274,000**	**482,000**	**472,000**	**455,000**	**2,683,000**
Proposed Financing:					
Supported Capital Expenditure	-	-	-	-	**-**
Grants - Disabled Facilities	150,000	150,000	150,000	150,000	**600,000**
Grants - Home Repairs Works in Default	120,000	120,000	120,000	120,000	**480,000**
Grants - Castle HLF	511,550	-	-	-	**511,550**
General Fund Capital Receipts	492,450	212,000	-	-	**704,450**
Sale of Council House Receipts	-	-	202,000	185,000	**387,000**
Unsupported Borrowing	-	-	-	-	**-**
Total	**1,274,000**	**482,000**	**472,000**	**455,000**	**2,683,000**

Appendix J

Proposed Housing Capital Programme

	2011/12	2012/13	2013/14	2014/15	Total
	£	**£**	**£**	**£**	**£**
Housing Revenue Account Capital Programme					
Decent Homes					
Asbestos Testing and Removal	100,000	100,000	100,000	100,000	**400,000**
Bathroom Renewals	865,600	865,600	865,600	865,600	**3,462,400**
Disabled Facilities Adaptations	450,000	450,000	450,000	450,000	**1,800,000**
Electrical Upgrades	669,600	669,600	669,600	669,600	**2,678,400**
Gas Central Heating Upgrades and Renewals	439,800	659,700	879,600	1,099,500	**3,078,600**
Kitchen Renewals	1,513,120	1,513,120	1,513,120	1,513,120	**6,052,480**
Major Roofing Overhaul and Renewals	69,120	103,680	138,240	172,800	**483,840**
Structural Surveys and Repairs	70,000	70,000	70,000	70,000	**280,000**
Window and Door Renewals	100,000	100,000	100,000	100,000	**400,000**
Total HRA Capital	**4,277,240**	**4,531,700**	**4,786,160**	**5,040,620**	**18,635,720**
Proposed Financing:					
Supported Capital Expenditure	-	-	-	-	**-**
Grants	-	-	-	-	**-**
Sale of Council House Receipts	-	-	-	-	**-**
Major Repairs Reserve	2,833,190	2,892,470	2,955,590	3,020,090	**11,701,340**
Revenue Contribution to Capital Outlay	794,050	939,230	1,080,570	1,220,530	**4,034,380**
HRA Capital Reserve	-	-	-	-	**-**
Other Savings	650,000	700,000	750,000	800,000	**2,900,000**
Unsupported Borrowing	-	-	-	-	**-**
Total	**4,277,240**	**4,531,700**	**4,786,160**	**5,040,620**	**18,635,720**

Appendix K

Main Assumptions

Inflationary Factors	2011/12	2012/13	2013/14	2014/15
Inflation Rate - Pay Awards	0.00%	0.00%	2.00%	2.00%
National Insurance	7.50%	7.50%	7.50%	7.50%
Superannuation	18.80%	19.10%	19.60%	20.10%
Inflation Rate (Headline)	2.25%	2.00%	2.00%	2.00%
Base Interest Rates	1.10%	2.20%	3.10%	4.00%

1. Pay award – public sector pay will be frozen for 2011/12 & 2012/13 and is estimated to mirror the Government's inflation target of 2% thereafter.

2. Overall Fees and Charges will rise generally by 2.5% annually except where a proposal has otherwise been made (car parking charges, corporate & industrial property rental income, statutory set planning fees, leisure fees);

3. No effect of any Prudential Borrowing has been included;

4. Revised estimated for rent allowance / rent rebate subsidy levels have been included;

5. Car Parking income has been reduced in line with current income levels for 2011/12, with charges increased in 2012/13 and 2013/14 in line with the previously approved charging strategy;

6. Changes to the level of recharges between funds has been included;

7. Within the Comprehensive Spending review released on the 20th October 2010, the Government proposed cuts of 7.25% in real terms to funding streams for each of the next four years,

8. The Government has made clear its policy regarding council tax bills being frozen for the next year. It has indicated that a grant equivalent to a 2.5% increase in the basic 2010/11 Council Tax, will be available to authorities that agree to freeze or reduce Council Tax in 2011/12, with supplementary funding for foregone income as a result of a continued freeze for the next three years. The impact of a 2.5% pa compensatory grant is outlined within the report;

9. The major changes to the previously approved policy changes are included within this forecast – Directors / AD's were issued with the provisional information in August to review, confirm & resubmit by the end of September;

10. Following the 4 year agreement, 0.5% annual year-on-year increases (as above) in pension costs following SCC triennial review negotiations.

11. Increases in rent levels are restricted by the rent restructuring guidelines & current indications that sales of council houses will be approximately 5 per annum.

Appendix L

Sensitivity Analysis

	Risk	Potential Budgetary Effect 2011/12 £'000	 2012/13 £'000	 2013/14 £'000	 2014/15 £'000
Pay Award / National Insurance (GF)					
Impact +/- 0.5% Variance £'000	L	43	85	128	171
Budget Impact over 1 year	L	43			
Budget Impact over 4 years	L/M	427			
Pay Award / National Insurance (HRA)					
Impact +/- 0.5% Variance £'000	L	11	22	33	44
Budget Impact over 1 years	L	11			
Budget Impact over 4 years	L	110			
Pension Costs					
Impact +/- 0.5% Variance £'000	L	54	106	160	215
Budget Impact over 1 year	L	54			
Budget Impact over 4 years	M	535			
Inflation / CPI					
Impact +/- 0.5% Variance £'000	L	37	75	114	153
Budget Impact over 1 year	L	37			
Budget Impact over 4 years	L/M	379			
Government Grant					
Impact +/- 0.5% Variance £'000	L	0	24	47	69
Budget Impact over 1 year	L	0			
Budget Impact over 4 years	L/M	140			
Investment Interest					
Impact +/- 0.5% Variance £'000	L	-117	-226	-330	-430
Budget Impact over 1 year	L	-117			
Budget Impact over 4 years	H	-1103			
Council Tax					
Impact of 0% increase in Council tax in 2011/12 (followed by increases in line with CPI inflation)					
% increase		0.0%	2.0%	2.0%	2.0%
Total Council Tax income £'000		3,485	3,570	3,657	3,746
Impact on Council Tax income £'000		9	85	172	261
Capping Risk		L	L	L	L
Impact of 0.5% pa variance in increase in Council tax					
% increase		0.0%	2.5%	2.5%	2.5%
Total Council Tax income £'000		3,485	3,588	3,693	3,801
Impact on Council Tax income £'000		0	18	36	55
Budget Impact over 1 year	L	0			
Budget Impact over 4 years	L	109			
Capping Risk		L	L	L	L

	Risk	2011/12	2012/13	2013/14	2014/15
		Potential Budgetary Effect			
		£'000	£'000	£'000	£'000
New Homes Bonus (2 years)					
Impact +/- 10% Variance £'000	L	-16	-40	0	0
Budget Impact over 1 year	L	-16			
Budget Impact over 4 years	M/H	-56			
New Homes Bonus (4 years)					
Impact +/- 10% Variance £'000	L	-16	-40	-282	-524
Budget Impact over 1 year	L	-16			
Budget Impact over 4 years	M/H	-862			

* New Homes Bonus funding assumed for 2 years only - potential future grant levels to be used to mitigate any further formula grant reductions in years 3 & 4.

'At Risk' Icelandic Investments

Of the total investments at risk plus accrued interest (£8.15m) a total of £3.39m was identified as potentially unrecoverable and capitalised within the 2009/10 financial year.

This equates to a potential loss of 41.5%. Should recovery rates increase (following legal proceedings) then the impact of a 10% variance would be £815k - reducing the 20 year capitalisation charge by c.£41k per annum.
Should current legal proceedings favour the Council then a potential recovery rate of 88% and a reduction in capitalisation of £2.4m (£121k p.a.) - considered Medium to High Risk.

Appendix M

Contingencies 2011/12 - 2014/15

Revenue					
Specific Earmarked &		2011/12	2012/13	2013/14	2014/15
General		£'000	£'000	£'000	£'000
General Fund					
Specific Contingencies					
Vacancy Allowance		50	50	50	50
International Financial Reporting Standards (IFRS) requirements		25	25	25	25
General Contingency		100	0	0	0
Total GF		**175**	**75**	**75**	**75**
Housing Revenue Account					
HRA - General Contingency		100	0	0	0
Total HRA		**100**	**0**	**0**	**0**

APPENDIX N

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2011/12

Purpose

To comply with the requirement of the Council's Treasury Management Policy in reporting to Council the proposed strategy for the forthcoming year and the Local Government Act 2003 with the reporting of the Prudential Indicators.

Recommendations

That Cabinet request Council to:

1. **Approve the Treasury Management Strategy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy 2011/12;**

2. **Approve the Prudential and Treasury Indicators and Limits for 2011/12 to 2013/14 contained within Appendix 3;**

3. **Adopt the Treasury Management Practices contained within Appendix 9;**

4. **Approve the detailed criteria of the Investment Strategy 2011/12 contained in the Treasury Management Strategy contained within Appendix 5 and 6.**

Equalities implications

There are no equalities implications arising from the report.

Legal implications

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirements of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

Resource and Value for Money implications

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

Risk implications

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

Conclusions

The Local Government Act 2003 (LGA 2003) requires the Council to produce prudential indicators in line with the Prudential Code.

This report outlines the Council's prudential indicators for 2011/12 – 2013/14 and sets out the expected Treasury operations for this period. This report and associated tables fulfil the statutory requirement of the LGA 2003 by:

- Reporting the prudential indicators as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities;

- Setting the Council's Minimum Revenue Provision (MRP) Policy, which defines how the Council will pay for capital assets through revenue contributions each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007;

- Setting the Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management;

- Setting the Investment Strategy (in accordance with the Department for Communities and Local Government (DCLG) investment guidance);

- Affirming the effective management and responsibility for the control of risk and clearly identify our appetite for risk. The Authority's risk appetite is low in order to give priority to **S**ecurity, **L**iquidity then **Y**ield (or return on investments).

The main issues for Members to note are:

1. The CIPFA Code of Practice and associated Guidance Notes adopted by the Council in February 2010 require 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;

   - There needs to be, at a minimum, a mid year review of Treasury Management Strategy and Performance. The review is intended to highlight any areas of concern that have arisen since the original strategy was approved;

   - Each Council must delegate the role of scrutiny of Treasury Management Strategy and policies to a specific named body – the Audit and Governance Committee has been given this role;

   - Members should be provided with access to relevant training – Members are also personally responsible for ensuring they have the necessary skills and training.

     The aim is for all Members to have ownership and understanding when making decisions on Treasury Management matters.

2. With regard to Counterparty selection for investment, rather than adopt a Lowest Common Denominator (LCD) methodology, a broader counterparty evaluation criteria is used by Sector (the Council's Treasury Management consultants). This methodology has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element – but in line with best practice/guidance also includes 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.

   The adoption of the above approach will help mitigate risks associated with the investment portfolio.

3. As agreed in last years Treasury Management Strategy, it is proposed that the Council (following consultation with our advisors) will not use the approach suggested by CIPFA of using the lowest common denominator rating from all three rating agencies to determine creditworthy counterparties (as Moodys are currently very much more aggressive in giving low ratings than the other two agencies). The use of the Lowest Common Denominator rating would give the Authority a very restrictive/unworkable counterparty list which would result in a disproportional (high) level of investment in a few institutions which would as a consequence increase investment risk with the investments being held with a limited number of counterparties which would be counter-productive in not allowing the sharing / spreading of risk over a higher number of counterparties. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue importance to just one agency's ratings.

   The approach taken in item 2 and 3 above allows officers charged with the Treasury responsibilities to have the most appropriate/market assessment to aid the investment decision making process and provides a broad methodology for identifying High Credit Quality counterparties.

4. Members should be aware of the potential changes proposed by the Government to the Housing Revenue Account Subsidy system. The Coalition Government recently announced that they would continue with the previous Governments proposed review of the Housing Revenue Account Subsidy System. Under the current system, Councils are required to pay Council House Rents and the majority of receipts from any sales of Housing land or homes to Central Government, who then decide how best to redistribute it back to Councils. Under the proposed new rules, Councils would instead keep all the rents they collect. In return for this greater freedom, the Council would take on additional housing debt (estimated in our case to be in the region of £50m) which would require a substantial increase in our borrowing limits and would therefore require formal approval from Council. Details of the new system were introduced as part of the Localism Bill, placed before the House of Commons for its first reading on the 13th December 2010. Implications on the new system will be reported to Members as soon as these are available, together with proposals to agree revised prudential limits in order to accommodate the new legislation.

A Glossary of terms utilised within the report can be found at **Appendix 10**.

1. Background Information

1.1 Introduction

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 Requirements

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

The Act therefore requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.3 CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 23rd February 2010*.*

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities;
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
3. Receipt by the Full Council of an Annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions;
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is Audit and Governance Committee.

1.4 Treasury Management Strategy for 2011/12

The proposed strategy for 2011/12 in respect of the following aspects of the Treasury Management function (as defined below) is based upon the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's Treasury adviser, Sector and HM Treasury.

The strategy covers:

- Treasury limits in force which will limit the Treasury risk and activities of the Council,
- Prudential and Treasury Indicators,
- the current Treasury position,
- the borrowing requirement,
- prospects for interest rates,
- the borrowing strategy,
- policy on borrowing in advance of need,
- debt rescheduling,
- the investment strategy,
- creditworthiness policy,
- policy on use of external service providers,
- the Minimum Revenue Provision (MRP) strategy.

1.5 Balanced Budget Requirement

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 including the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

a) increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
b) 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

2. Treasury Limits for 2011/12 to 2013/14

It is a statutory duty under Section 3 of the Act 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.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which requires it to ensure that total capital investment remains within sustainable limits and that the impact upon its future Council Tax and Council Rent levels are 'acceptable'.

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; details of the Authorised Limit can be found in **Appendix 3** of this report.

3. Current Portfolio Position

The Council's Treasury portfolio position at 31/12/10 comprised:

		Principal		Average Rate
Fixed Rate Funding		£m		%
	PWLB	22.4		
	Market	0.0	22.4	6.9
Variable Rate Funding				
	PWLB	0.0		
	Market	0.0	0.0	0
Other Long Term Liabilities		0.0	0.0	0
TOTAL DEBT			22.4	6.9
TOTAL INVESTMENTS*			20.0	1.0

* Excluding investments identified as 'At Risk' in Icelandic Banking institutions of £5.23m (as at 31st December 2010).

4. Borrowing Requirement

The Council's borrowing requirement is as follows**:**

	2009/10 £000's Actual	2010/11 £000's Probable	2011/12 £000's Estimate	2012/13* £000's Estimate	2013/14* £000's Estimate
New Borrowing (mainly capitalisation of Icelandic Investments)	0	2,836	0	0	0
Alternative Financing Arrangements	0	0	0	0	0
Replacement Borrowing	0	2,000	0	0	0
Total	**0**	**4,836**	**0**	**0**	**0**

* Excluding potential borrowing arising from the HRA Self financing proposals

5. Prudential and Treasury Indicators for 2011/12 – 2013/14

Prudential and Treasury Indicators (as set out in the tables at **Appendix 3** to this report) are relevant for the purposes of setting an integrated Treasury Management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 5th March 2002 and the revised 2009 Code was adopted by the Full Council on 23rd February 2010.

6. Prospects for Interest Rates

The Council has appointed Sector as Treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. **Appendix 2** summarises a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives Sector's central view.

Sector Bank Rate forecast for financial year ends (March)

- 2010/ 2011 0.50%
- 2011/ 2012 1.00%
- 2012/ 2013 2.25%
- 2013/ 2014 3.25%

There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. A detailed view of the current economic background is contained within **Appendix 4** to this report.

7. Borrowing Strategy

7.1 Borrowing rates

The Sector forecast for the PWLB new borrowing rate is as follows: -

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	4.30%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	5.10%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%

A more detailed Sector forecast is included in **Appendix 2**.

The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

1. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;
2. Temporary Borrowing from the Money Markets or other Local Authorities;
3. PWLB variable rate loans for up to 10 years;
4. Short dated borrowing from non PWLB (see 5 below);
5. Long term fixed rate market loans at rates that could be significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio;
6. PWLB borrowing for periods under 10 years where rates are expected to be significantly

lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted 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.

7.2 External v. Internal Borrowing

Comparison of gross and net debt positions at the year end 31 March	2009/10	2010/11 Note 1	2011/12	2012/13 Note 2	2013/14 Note 2
	Actual £'000	Probable out-turn £'000	Estimate £'000	Estimate £'000	Estimate £'000
Actual external debt (gross)	22,392	27,228	27,228	27,228	27,228
Cash balances (including investments)	19,632	18,418	18,200	19,060	18,613
Net Debt	**2,760**	**8,810**	**9,028**	**8,168**	**8,615**

Note 1 mainly includes impact of capitalisation of Icelandic investments & changes in cashflow;
Note 2 Excludes HRA Self financing proposals.

- The Council currently has a difference between gross debt and net debt (after deducting cash balances), of £8.8m;
- The general aim of the Treasury Management Strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken in the last year have already reduced substantially the level of credit risk (see paragraph 9). Another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments;
- The next financial year is expected to be one with an exceptionally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing – this will be an important factor in considering potential new housing debt financing requirements;
- Over the next three years, investment rates are therefore expected to be below long term borrowing rates. As a consequence therefore, value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings. However, this option has a detrimental effect under the current Subsidy rules, so any borrowing decision will be made to maximise the financial position of the Council as a whole;

- However, short term savings by avoiding new long term external borrowing in 2011/12 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.
- The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action; such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Against this background, caution will be adopted with the 2011/12 Treasury operations.

The Corporate Director Resources will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

7.3 Policy on borrowing in advance of need

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.

8. Debt Rescheduling

The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual 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 size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a skew towards longer dated PWLB.

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

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined in paragraph 7 above;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

All rescheduling will be done in consultation with our treasury advisors, Sector, and will be reported to Cabinet / Audit and Governance Committee, at the earliest meeting following its action.

9. Annual Investment Strategy

9.1 Investment Policy

The Council will have regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

(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. The risk appetite of this Council is low in order to give priority to security of its investments.

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 – however, advanced borrowing for future needs are permissible subject to financial benefits i.e. to lock into lower interest rates.

Investment instruments identified for use in the financial year are listed in **Appendix 5** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

9.2 Creditworthiness policy

The Council uses the creditworthiness service provided by Sector. The service has been progressively enhanced over the last year 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 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;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. The colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that the modelling approach adopted by Sector leads to better risk management in the investment process and is superior to the CIPFA recommended LCD model and enables a greater management flexibility and spread of risk.. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. 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 3 months
- No Colour not to be used

**This category has been added for AAA rated Government debt or its equivalent*

Sector also recommends that no more than 20% of the Councils investment portfolio should be placed with an individual counterparty, in order to spread risk. The approach at the Council is to set monetary limits of up to £4m with individual institutions, which equates approximately to Sectors recommendation (based on current investment levels of £20m).

This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys tend to be 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 Sector creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored on a daily/as and when changes are notified basis. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

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

9.3 Country limits

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

The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 6**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

9.4 Investment Strategy

In-house funds*:* As at the 31st December 2010 the Council had £20m on deposit in the money markets (excluding 'Sums at risk' in the Icelandic Banking situation) of which approximately £5.7m relates to core balances held in relation to earmarked reserves etc, £8.2m held in general balances and £6.1m being cash-flow. 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).

Longer Dated Deposits: As at the 31st December 2010 the Council had the following fixed term deposits which will mature in 2011/12;

Counterparty	Amount	Invested	Maturity	Rate
Lloyds TSB	1.0m	05/10/2010	05/10/2011	1.90%
Lloyds TSB	2.0m	05/11/2010	04/11/2011	1.85%

Interest rate outlook: Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in the 4th quarter of 2011 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows: -

- 2010/ 2011 0.50%
- 2011/ 2012 1.00%
- 2012/ 2013 2.25%
- 2013/ 2014 3.25%

There is a downside risk to these forecasts if economic growth is weaker than expected. There is also a risk that the Monetary Policy Committee (MPC) could decide to start raising Bank Rate in the 3rd Quarter of 2011 if it feels it needs to defend its credibility in containing inflation and the inflation expectations of the public. The impact of interest rate movements is included in the sensitivity analysis at **Appendix L**.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this Council.

The suggested budget for investment returns on investments placed for periods less than three months during each financial year is as follows: -

2010/11	0.50%
2011/12	0.70%
2012/13	1.70%
2013/14	3.10%
2014/15	3.50%
2015/16	4.00%

In practice the Council achieves a higher return than the 3 month LIBID rate, by utilising approved investments up to one year, which is identified in the Medium Term Financial Strategy projections.

For 2011/12 it is suggested that the Council should budget for an investment return of £256k on investments placed during the financial year.

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 15 and 30 day notice accounts, Money Market Funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

9.5 Year End investment report

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

9.6 External Fund Managers

The Council does not currently use External Fund Managers, however if circumstances were deemed advantageous to do so, the Council would ensure that they would comply with our Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally would stipulate guidelines and duration and other limits in order to contain and control risk.

9.7 Policy on the use of External Treasury Management service providers

The Council uses Sector as its external Treasury Management advisers.

The Council recognises that responsibility for Treasury Management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The consultancy service provides;

- Advice on investment counterparty creditworthiness and provision of prudent parameters for selecting counterparties;
- Provide interest rate forecasts and advise on suitable borrowing and investment strategies;
- Provide regular updates on economic and political changes;
- Advice on the application of the Prudential Code;
- Provide forecasts of movements in borrowing rates (PWLB);

- Advise on potential effects of Debt Rescheduling and funding policy;
- Attend regular strategy meetings to review the Councils financial position;
- Provide annual template documents to assist in reporting the Treasury position at various times in the year;
- Technical and accounting advice on treasury related issues;
- Provide places at regular training seminars and provide in-house training seminars for Members and officers.

9.8 Investment Management Training

Treasury Management is a specialised area requiring high quality and well trained staff that has an up to date knowledge of current issues, legislation and Treasury Risk Management techniques.

Treasury practitioners attend regular CIPFA and Sector training seminars throughout the year and Personal Development Reviews (PDR) identify individual additional training needs. Officers have also attended workshops to review benchmarking and current issues in Treasury Management.
Member training is also important, successful Member training was held in February 2010 with a follow-on session held in October 2010. The need for further training events will be kept under review with additional sessions being provided in the future as and when required.

9.9 Scheme of delegation

Please see **Appendix 7**.

9.10 Role of the Section 151 Officer

Please see **Appendix 8**.

10. Appendices

Report Author

Please contact Phil Thomas, Financial Accountant, extension 239 or via email phil-thomas@tamworth.gov.uk

Background Papers:-	***Local Government Act 2003***
	CIPFA Code of Practice on Treasury Management in Public Services 2009
	DCLG Guidance on Local Government Investments March 2010
	Annual Treasury Report 2009/10
	Budget & Medium Term Financial Strategy 2011/12
	DCLG Housing Determinations and Local Government Finance Settlement 2011/12
	Treasury Management Practices 2011/12 (Operational Detail)

APPENDIX 1

Minimum Revenue Provision Policy Statement 2011/12

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2011/12 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2011/12 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31st March 2010 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Councils' budgeted Minimum Revenue Provision for 2011/12 is £194k.

APPENDIX 2

Interest Rate Forecasts

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. Individual Forecasts

Sector

Interest rate forecast – 06.01.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%	3.25%	3.50%	3.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%	3.20%	3.50%	3.80%	4.00%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%	3.40%	3.65%	4.00%	4.20%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%	5.00%
10yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%	5.70%

Capital Economics

Interest rate forecast – 12.01.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%
5yr PWLB rate	3.20%	3.20%	3.00%	2.75%	2.75%	2.90%	3.00%	3.20%	3.40%	3.60%	3.90%	4.20%
10yr PWLB rate	4.75%	4.75%	4.25%	3.75%	3.75%	3.75%	3.75%	3.75%	3.90%	4.00%	4.30%	4.60%
25yr PWLB rate	5.25%	5.25%	4.85%	4.65%	4.65%	4.65%	4.65%	4.65%	4.75%	4.85%	5.10%	5.30%
50yr PWLB rate	5.30%	5.30%	5.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.10%	5.20%	5.30%

UBS

Interest rate forecast (for quarter ends) – 06.01.11

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Bank rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
10yr PWLB rate	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
25yr PWLB rate	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
50yr PWLB rate	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

2. Survey of Economic Forecasts

HM Treasury December 2010

The current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

BANK RATE FORECASTS		quarter ended	annual average Bank Rate			
	actual	Q4 2011	ave. 2011	ave. 2012	ave. 2013	ave. 2014
Median	0.50%	1.00%	0.90%	1.60%	2.40%	3.00%
Highest	0.50%	1.60%	2.10%	3.10%	3.60%	4.50%
Lowest	0.50%	0.50%	0.50%	0.50%	0.60%	1.20%

Prudential and Treasury Indicators

PRUDENTIAL INDICATORS	2009/10	2010/11	2011/12	2012/13*	2013/14*
Extract from budget and rent setting report	**Actual** **£'000**	**Probable Outturn** **£'000**	**Estimate** **£'000**	**Estimate** **£'000**	**Estimate** **£'000**
Capital Expenditure					
Non - HRA	4,690	1,616	1,998	482	472
HRA	4,341	4,369	4,298	4,532	4,787
TOTAL	9,031	5,985	6,296	5,014	5,259
Ratio of financing costs to net revenue stream	**%**	**%**	**%**	**%**	**%**
Non – HRA **	-1.81	3.84	1.76	-0.85	-3.40
HRA **	-3.24	-3.97	-4.79	-5.03	-5.10
Net borrowing requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
brought forward 1 April	4,242	2,760	8,810	8,627	8,313
carried forward 31 March	2,695	8,810	8,627	8,313	8,869
In year borrowing requirement / repayment (-)	-1,547	6,050	-183	-314	556
Capital Financing Requirement as at 31 March	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non – HRA	4,028	3,833	3,639	3,446	3,254
HRA ***	22,915	23,395	23,395	23,395	23,395
TOTAL	26,943	27,228	27,034	26,841	26,649
Annual change in Cap. Financing Requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non – HRA	3,359	-195	-194	-193	-192
HRA ***	480	480	0	0	0
TOTAL	3,839	285	-194	-193	-192
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**
Increase in Council Tax (band D) per annum	0.46	3.52	1.04	4.76	9.75
Increase in average housing rent per week	0.17	0.45	0.07	0.19	0.11

* Indicators may significantly change from 2012/13, pending review of the Housing Revenue Account Subsidy system, as mentioned on page 77 of this report.
** Shown as negative as income exceeds costs
*** Supported capital expenditure of £480k p.a. ceased in 2010/11

TREASURY MANAGEMENT INDICATORS	2009/10	2010/11	2011/12	2012/13*	2013/14*
	Actual	Probable Outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	33,600	32,800	33,100	33,400	33,700
other long term liabilities	2,000	3,000	3,000	3,000	3,000
TOTAL	35,600	35,800	36,100	36,400	36,700
Operational Boundary for external debt -					
borrowing	22,392	27,300	27,600	27,900	28,100
other long term liabilities	0	0	0	0	0
TOTAL	22,392	27,300	27,600	27,900	28,100
Actual external debt	22,392	-	-	-	-
Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	-2,221	11,797	14,570	14,496	14,884
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	2,243	2,278	2,737	2,723	2,796
Upper limit for total principal sums invested for over 364 days (per maturity date)	4,000	3,500	3,500	3,000	2,500

* Indicators may significantly change from 2012/13, pending review of the Housing Revenue Account Subsidy system, as mentioned on page 77 of this report.

Maturity structure of fixed rate borrowing during 2011/12	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

Economic Background

1. Global economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland in November, culminated in Ireland also having to take a bail out. At the time of writing (early January 2011) there is major concern that Portugal will also shortly need to take a bail out. That, in turn, would then stoke major concerns as to whether the current size of the bail out facility put together by the EU and IMF would be big enough to cope with any crisis that then blew up over Spanish government debt.

The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.

2 UK Economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The result of fiscal contraction will be major job losses during this period, in particular in public sector services. This is likely to have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a generally negative trend starting in mid 2010. Mortgage approvals are also at very weak levels, all of which indicates that the housing market is likely to be weak in 2011.

Economic Growth – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. Growth in quarter 3 @ +0.7% was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which may be the start of a new trend for some years ahead of rising unemployment.

Inflation and Bank Rate – CPI has remained high during 2010. It peaked at 3.7% in April and then gradually declined to 3.1% in September (RPI 4.6%). However, the outlook from there is a rising trend which could even reach as much as 4% in early 2011 before starting to subside again. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectation that there could be a second round of quantitative easing in late 2010 or early 2011, to help support economic growth, has evaporated after the surprises of the Q3 GDP figure of +0.7% and the November Inflation Report revising the forecast for short term inflation sharply upwards.

Sector's central view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors viewed UK government gilts as being a safe haven from EU government debt during mid 2010. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

3 Sector's Forward View

It is currently difficult to have confidence as to exactly how strong UK economic growth is likely to be during 2011/12, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the strength / weakness of economic growth in our major trading partners - the US and EU.
- the danger of currency war and resort to protectionism and tariff barriers if China does not adequately address the issue of its huge trade surplus due to its undervalued currency.
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence.
- changes in the consumer savings ratio.
- the speed of rebalancing of the UK economy towards exporting and substituting imports.
- the potential, in the US, for more quantitative easing, and the timing of this, and its subsequent reversal in both the US and UK,
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers,
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy,
- political risks in the Middle East and Korea.

The overall balance of risks is weighted to the downside and there is some residual risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

APPENDIX 5

Specified and Non-Specified Investments:

SPECIFIED INVESTMENTS:

These investments are **sterling** investments of **not more than one-year maturity** and are relatively high security and high liquidity, they could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They are relatively high security and high liquidity and are low risk assets where the possibility of loss of principal or investment income is small. The investments could be managed In-House or by Fund Managers.

These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or Gilts with less than one year to maturity).
2. A Local Authority, Parish Council or Community Council.
3. Pooled investment vehicles or Collective Investment Schemes structured as Open Ended Investment Companies (OEIC's) such as Money Market Funds (MMF's) Government Liquidity Funds, Enhanced Cash Funds, Bond Funds (but not Corporate Bonds) and Gilt Funds, that have a high credit quality and been awarded a high credit rating of AAA by Standard and Poor's, Moody's or Fitch rating agencies and a Low Long Term Volatility rating.
4. A body that has a high credit quality and been awarded a high credit rating by a credit rating agency (such as a bank or building society) and complies with the Sector Credit Worthiness service.
5. A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes and/or is part or wholly nationalised by that Government. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

SPECIFIED INVESTMENTS	Minimum 'High' Credit Criteria	Limits
UK Government/ Debt Management Agency Deposit Facility	Defined by Regulation UK Treasury (AAA)	£4m
Term deposits – Local Authorities	Defined by Regulation (Sec 23 of the 2003 act)	£4m
Treasury Bills	Defined by Regulation UK Treasury (AAA)	£4m
Term deposits and Callable deposits – Banks and Building Societies	In accordance with Sector's Creditworthiness Service up to 'Orange' or 'Blue'	£4m individual institutions £6m Group limit
Pooled investment vehicles *(OEIC's, MMF's etc)	AAA (Moody's MR1+, Fitch MMF and S&P M).	£4m
Banks and Building Societies – Forward deals up to 1 year from arrangement to maturity	In accordance with Sector's Creditworthiness Service up to 'Orange 'or 'Blue'	£4m

*For pooled investment vehicles or Collective Investment Schemes (such as MMF's) that have a high credit quality and have been rated AAA by Standard and Poor's, Moody's or Fitch rating agencies and have a Constant Net Asset Value (CNAV).

NON-SPECIFIED INVESTMENTS:

Non-specified investments are any other type of investment (i.e. not defined as Specified above) and could be managed In-House or by Fund Managers. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Categories	Credit Rating	Comment
1	**Supranational Bonds greater than 1 year to maturity** • **Multilateral development bank bonds** – These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). • **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA	Would not use in-house due to size of investment portfolio limiting benefit to authority.
2	**UK Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (1) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA Sovereign Rated	Not currently in use - requires approved Custodian to trade on our behalf
3	**Certificates of Deposit** with credit rated deposit takers (Banks and Building Societies)	Sector Minimum Credit Worthiness rating	Not currently in use - requires approved Custodian to trade on our behalf
4	**Term deposit with a body which has been nationalised/part nationalised** by high credit rated (sovereign rating AAA) countries and provided with a **Government issued guarantee** for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.	AAA Sovereign Rated Sector Credit Worthiness rating 'Blue'	Under the current criteria this applies in the UK to Lloyds Banking Group plc and Royal Bank of Scotland Group institutions

	Non Specified Investment Categories	Credit Rating	Comment
5	A Term Deposit with a body which is an **Eligible Institution** for the HM Treasury Credit Guarantee Scheme initially announced on 13th October 2008*(1)*. The Credit Guarantee Scheme forms part of the Governments measures to ensure the stability of the financial system and protect ordinary savers, depositors, businesses and borrowers, by; a) providing sufficient liquidity in the short term, b) make available new capital to UK banks and Building Societies to strengthen their resources c) ensure the banking system has the funds necessary to maintain lending in the medium term.	In accordance with Sector Credit Worthiness rating	Use restricted by Sector Credit Worthiness rating
6	Government guarantee on ALL deposits by high credit rated (AAA sovereign rating non UK) countries.	AAA Sovereign Rated	Not in Use, currently restricting investments to UK only
7	The **Council's Own Banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.	Out of range	Currently fails to meet criteria, balances reviewed and minimised on daily basis
8	Any **Bank or Building society** that has at minimum a long term credit rating of A-, an Individual Rating of B/C and a Support rating of 3 or above, or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	In accordance with Sector Credit Worthiness rating	Use restricted by Sector Credit Worthiness rating
9	**Callable Deposits** with a **Bank or Building society** that has at minimum a long term credit rating of A-, an Individual Rating of B/C and a Support rating of 3 or above, or equivalent.	In accordance with Sector Credit Worthiness rating	Use restricted by Sector Credit Worthiness rating
10	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	N/A	Unlikely to use due to size of portfolio and high risk associated. Also requires additional approval as deemed as capital expenditure.

Within categories 3, 4, 5 and 6, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. All investments will be made in sterling to eliminate exchange rate risk.

The criteria are detailed in the table below and will be used in conjunction with Sectors Creditworthiness service.

Counterparty Type (TBC's minimum credit ratings for approved lending list)	**Minimum Credit Criteria**	**Limits***	
Bank or Building Society (a minimum Long Term Credit Rating of AAA, an Individual Rating of B/C and a Support rating of 3 (or equivalent))	Sector 'Yellow'	5 yrs	£4m
Bank or Building Society (a minimum Long Term Credit Rating of AA-, an Individual Rating of B/C and a Support rating of 3 (or equivalent))	Sector 'Yellow'	4 yrs	£4m
Bank (a minimum Long Term Credit Rating of A-, an Individual Rating of B/C and a Support rating of 3 (or equivalent))	Sector 'Yellow'	3 yrs	£4m
Banks Nationalised/Part nationalised by high credit rated (sovereign rating AAA) countries *(a)*	Sector 'Blue' (UK)	Specified in Guarantee	£4m
An Eligible Institution eligible under the HM Treasury Credit Guarantee Scheme *(c)*	Sector 'Blue'	Specified in Guarantee	£4m
Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries *(b).*	Sector 'Blue'	Specified in Guarantee	£4m
The Councils own Banker - if it fails to meet basic criteria	n/a	Overnight	£2m
Building Society (a minimum Long Term Credit Rating of A- an Individual Rating of B/C and a Support rating of 3 (or equivalent /if applicable) AND assets > £4bn)	Sector 'Yellow'	3 yrs	£4m
Building Society (a Long Term Credit Rating of A- an Individual Rating of B/C and a Support rating of 3 (or equivalent/if applicable) AND assets < £4bn but > £1bn)	Sector 'Purple'	2 yrs	£4m
Group Limits **-** Maximum investments in Institutions within the same financial group	As above for individual investment	As above for individual investment	£6m
Territory Limits **-** Maximum investments in Institutions within the same Country (Approx 15% of investment programme) Non- UK	As above for individual investment	As above for individual investment	£2m
Territory Limits - Maximum investments in Institutions within the same Continent (Approx 30% of investment programme) Non UK	As above for individual investment	As above for individual investment	£4m

* Under current Sector credit worthiness criteria, only institutions with a rating of 'Purple' or 'Yellow' are suggested as appropriate counterparties for investments over 1 year, with limit ranges of 2 years and 5 years respectively.

(a) **Nationalised/Part Nationalised Banks** in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch has assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government.

However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

(b) **Blanket (explicit) guarantees on all deposits.** Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland and Singapore. Authorities may view that the sovereign rating of that country then takes precedence over the individual credit ratings for the banks covered by that guarantee.

(c) **UK banking system support package (implicit guarantee).** It should be noted that the UK Government did NOT give a blanket guarantee on all deposits but underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. The Council will need to decide if we wish to authorise lending to those named banks on the basis of that implicit guarantee on local authority deposits placed with these eight banks or to rely on the credit ratings of the individual banks.

The original list of banks covered when the support package was initially announced was: -

- Abbey (now part of Santander)
- Barclays
- HBOS (now part of the Lloyds Group)
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Banks eligible for support under the UK bail-out package and which have issued debt guaranteed by the Government are eligible for a continuing Government guarantee when debt issues originally issued and guaranteed by the Government mature and are refinanced. However, no other institutions can make use of this support as it closed to new issues and entrants on 28.2.10. The banks which have used this explicit guarantee are as follows: -

- Bank of Scotland
- Barclays
- Clydesdale
- Coventry Building Society
- Investec bank
- Nationwide Building Society
- Rothschild Continuation Finance plc
- Standard Life Bank
- Tesco Personal Finance plc
- Royal Bank of Scotland
- West Bromwich Building Society
- Yorkshire Building Society

(d) **Other countries.** The US, countries within the EU and Switzerland (and other countries) are currently providing major support packages to their banking systems.

APPENDIX 6

Approved Countries for investments

AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.*
- U.S.A.

* At its meeting of the 15th September 2009, full Council approved a recommendation that;

'*authorises the use of institutions currently supported by the UK Government should its Sovereign rating be downgraded below the current requirement for a 'AAA' rating by all three rating agencies'*

and this continues to form part of the strategy in 2011/12.

APPENDIX 7

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on Treasury Management policies, practices and activities,
- approval of annual strategy.
- approval of/amendments to the organisation’s adopted clauses, Treasury Management Policy statement and Treasury Management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

(ii) Cabinet

- receiving and reviewing Treasury Management policy statement and Treasury Management practices and making recommendations to the full Council.
- receiving and reviewing regular monitoring reports and making recommendations to the full Council.
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee

- reviewing the Treasury Management policy and procedures and making recommendations to the Cabinet.
- receiving and reviewing regular monitoring (quarterly/half yearly) and making recommendations to the Cabinet.

APPENDIX 8

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) Officer

- 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 9

TREASURY MANAGEMENT PRACTICES

The Treasury Management Practices document (TMP's) forms detailed operational procedures and processes for the Treasury Management function. This document can be found on the Councils Internet by following the following link;

http://www.tamworth.gov.uk/council_and_democracy/council_budgets_and_spending/treasury_management.aspx

and clicking on the TMP's folder

The items below are summaries of the individual TMP's which the Council has to produce and adopt under the Treasury Code of Practice.

TMP1 : RISK MANAGEMENT

General Statement

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of Treasury Management risk; will report at least annually on the adequacy / suitability of the arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives. The reports will be in accordance with the procedures contained in TMP6.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its Treasury Management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and are detailed in the TMP Operational document.
It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.
It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.
It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

1.6 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its Treasury Management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its Treasury Management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its Treasury Management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its Treasury Management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up Treasury Management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

Records will be maintained of all Treasury Management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated Treasury Management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation will seek to ensure that its stated Treasury Management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect its self from the effects of such fluctuations.

TMP2 : BEST VALUE AND PERFORMANCE MEASUREMENT

The Borough Council is committed to the pursuit of best value in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management Policy Statement.
The Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal, grant or subsidy incentives, and the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the detailed TMP Operational document.

TMP3 : DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its Treasury Management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are set out in the detailed TMP Operational document.

TMP4 : APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its Treasury Management activities by employing only those instruments, methods and techniques are set out in the detailed TMP Operational document and within the limits and parameters defined in TMP1.

TMP5 : ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its Treasury Management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of Treasury Management responsibilities.

The principle, on which this will be based is the clear distinction between those charged with setting Treasury Management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of Treasury Management decisions and the audit and review of the Treasury Management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principals, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TPM6 and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in Treasury Management, and the arrangements for absence cover. He will also ensure that at all times those engaged in Treasury Management will follow the policies and procedures set out. The present arrangements are set out in the detailed TMP Operational document.

The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are set out in the detailed TMP Operational document.
The delegations to the Section 151 Officer in respect of Treasury Management are set out in the detailed TMP Operational document.
He will fulfill all such responsibilities in accordance with the Council's policy statement and TMP's and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP6 : REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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

As a minimum Cabinet and Council will receive:

- An annual report on the planned strategy to be pursued in the coming year and the reporting of Prudential Indicators.
- A mid-year review
- An annual report on the performance of the Treasury Management function including the performance against the Prudential Indicators, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's Treasury Management policy statement and TMP's.

Cabinet will receive regular monitoring reports on Treasury Management activities and risks.

The Audit and Governance Committee will have responsibility for the scrutiny of Treasury Management policies and practices.

The Treasury Management indicators will be considered together with the Treasury Management indicators in the Prudential Code as part of the budget approval process.
The present arrangements and the form of these reports are set out in the detailed TMP Operational document.

TMP7 : BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Section 151 Officer will prepare and Council will approve and, if necessary, from time to time will amend, an annual budget for Treasury Management, which will bring together all of the costs involved in running the Treasury Management function together with associated income. The matters to be included will at minimum be those required by statute or regulation, together, with such information as will demonstrate compliance with TMP1, TMP2 and TMP4.

The Section 151 Officer will exercise effective controls over this budget and report upon and recommend any changes required in accordance with TMP6.

The Council will account for its Treasury Management activities, for decisions made and transactions executed in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 : CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purpose of monitoring compliance with TMP1. The present arrangements for preparing cash flow projections, and their form, are set out in the detailed TMP Operational document.

TMP9 : MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council will, therefore, maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that all staff involved are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are set out in the detailed TMP Operational document.

TMP10 : TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will seek to appoint individuals, who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The section 151 Officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 : USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for the Treasury Management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of Treasury Management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. Terms of appointment will be properly agreed, documented and subject to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the detailed TMP Operational document.

TMP12 : CORPORATE GOVERNANCE

The Council is committed to the pursuit of proper corporate governance throughout its services, and to establishing the principles and practices by which this can be achieved. Accordingly the Treasury Management function and its activities will be undertaken with openness, transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key recommendations of the Code. This, together with the other arrangements are set out in the detailed TMP Operational document and are considered vital to the achievement of proper governance in Treasury Management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

APPENDIX 10

Treasury Management Glossary of Terms

Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Capital Financing Requirement	The Council's underlying need for borrowing for a capital purpose.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	A specific kind of counterparty agreement which allows the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange of regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal.
Credit Rating	This is a scoring system that lenders issue people with to determine how credit worthy they are.
Gilts	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period.
iTraxx	This is an index published by Markit who are a leading company in CDS pricing and valuation. The index is based on an equal weighting of the CDS spread of 25 European financial companies. Clients can use the iTraxx to see where an institutions CDS spread is relative to that of the market and judge its creditworthiness in that manner, as well as looking at the credit ratings.
Liquidity	An asset is perfectly liquid if one can trade immediately, at a price not worse than the uninformed expected value, the quantity one desires.
Long term	A period of one year or more.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.

Minimum Revenue Provision	Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation at or around a 2%.
Security	An investment instrument, issued by a corporation, government, or other organization which offers evidence of debt or equity.
Short Term	A period of 364 days or less
Treasury Management	To plan, organise and control cash and borrowings so as to optimise interest and currency flows, and minimise the cost of funds.
Working Capital	Cash and other liquid assets needed to finance the everyday running of a business such as the payment of salaries and purchases.
Yield	The annual rate of return on an investment, expressed as a percentage.