Open

Cabinet

Agenda

6.00pm
Monday, 12th November 2012
Council Chamber
Wyre Forest House
Finepoint Way
Kidderminster

Wyre Forest District Council

Cabinet

The Cabinet Members and their responsibilities:-

Councillor J-P Campion	**Leader of the Council**
Councillor M J Hart	**Deputy Leader, Environmental Services**
Councillor N J Desmond	**Resources and Transformation**
Councillor I Hardiman	**Community Well-Being**
Councillor A Hingley	**Place-Shaping**

Scrutiny of Decisions of the Cabinet

The Council has one Scrutiny Committee that has power to investigate policy issues and question members of the Cabinet who have special responsibility for a particular area of the Council's activities. The Cabinet also considers recommendations from this Committee.

In accordance with Section 10 of the Council's Constitution, Overview and Scrutiny Procedure Rules, and Standing Order 2.4 of Section 7, any item on this agenda may be scrutinised by the Scrutiny Committee if it is "called in" by the Chairman or Vice-Chairman of the Overview & Scrutiny Committee and any other three non-Cabinet members.

The deadline for "calling in" Cabinet decisions is 28th November 2012.

Councillors wishing to "call in" a decision on this agenda should contact Sue Saunders, Committee/Scrutiny Officer, Civic Centre, Stourport-on-Severn. Telephone: 01562 732733 or email susan.saunders@wyreforestdc.gov.uk

Urgent Key Decisions

If the Cabinet needs to take an urgent key decision, the consent of the Scrutiny Committee Chairman must be obtained. If the Scrutiny Committee Chairman is unable to act the Chairman of the Council or in his/her absence the Vice-Chairman of the Council, must give consent. Such decisions will not be the subject to the call in procedure.

Declaration of Interests by Members – interests of members in contracts and other matters

Declarations of Interest are a standard item on every Council and Committee agenda and each Member must provide a full record of their interests in the Public Register.

In addition, alongside the Register of Interest, the Members Code of Conduct ("the Code") requires the Declaration of Interests at meetings. Members have to decide first whether or not they have a disclosable interest in the matter under discussion.

Please see the Members' Code of Conduct as set out in Section 14 of this constitution for full details.

Disclosable Pecuniary Interest (DPI) / Other Disclosable Interest (ODI)

DPI's and ODI's are interests defined in the Code of Conduct that has been adopted by the District.

If you have a DPI (as defined in the Code) in a matter being considered at a meeting of the Council (as defined in the Code), the Council's Standing Orders require you to leave the room where the meeting is held, for the duration of any discussion or voting on that matter.

If you have an ODI (as defined in the Code) you will need to consider whether you need to leave the room during the consideration of the matter.

For further information: -

If you have any queries about this Agenda or Sue Saunders, Committee/Scrutiny Officer, Wyre Forest House, Finepoint Way, Kidderminster. Telephone: 01562 732733.

Documents referred to in this agenda may be viewed on the Council's website - www.wyreforestdc.gov.uk/council/meetings/main.htm

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Wyre Forest District Council

Cabinet

Monday, 12th November 2012

Council Chamber, Wyre Forest House, Finepoint Way, Kidderminster

Part 1

Open to the press and public

Agenda item	Subject	Page Number
1.	**Apologies for Absence**	
2.	**Declarations of Interests by Members** In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any Disclosable Pecuniary Interests (DPI's) and / or Other Disclosable Interests (ODI's) in the following agenda items and indicate the action that they will be taking when the item is considered. Please see the Members' Code of Conduct as set out in Section 14 of the Council's Constitution for full details.	
3.	**Minutes** To confirm as a correct record the Minutes of the meeting held on the 23rd October 2012.	6
4.	**CALL INS** a verbal update will be given on any decisions which have been "called in" since the last meeting of the Cabinet.	
5.	**Items Requiring Urgent Attention** To consider any item which, in the opinion of the Chairman requires consideration at the meeting as a matter of urgency.	
6.	**Public Participation** In accordance with the Council's Scheme for Public Speaking at Meetings of Full Council/Cabinet, to allow members of the public to present petitions, ask questions, or make statements, details of which have been received by 9 am on Friday 2nd November 2012. (See front cover for contact details).	

7.		***Leader of the Council***
7.1	**Leader's Announcements**	

8.	***Securing the Economic Prosperity of the District/ Delivering Together, With Less/ Improving Community Well-Being***	
8.1	***Councillor N J Desmond*** **Council Tax Benefit Reform** To consider a report from the Director of Resources and to consider the recommendations from the Overview and Scrutiny Committee on 8th November 2012. (Report to follow).	-

9.	***Delivering Together, With Less***	
9.1	***Councillor N J Desmond*** **Treasury Management Strategy Statement and Annual Investment Strategy Mid Year Review 2012/13** To consider a report from the Director of Resources which provides Members with a mid-year review of the Council's treasury management policies, practices and activities in accordance with the revised CIPFA Treasury Management Code of Practice and to consider the recommendations from the Overview and Scrutiny Committee on 8th November 2012.	10

10.	***Improving Community Well-Being***	
10.1	***Councillor I Hardiman*** **Provision of Splash Pads and Review of Paddling Pools** To consider a report from the Director of Community Well-Being which provides key issues and information for consideration by the Cabinet for the future provision of paddling pools/splash pads in the District and to consider the recommendations from the Overview and Scrutiny Committee on 8th November 2012. (Report to follow).	-

11.	**To consider any other business, details of which have been communicated to the Director of Community Assets & Localism before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.**	
12.	**Exclusion of the Press and Public** To consider passing the following resolution: "That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of "exempt information" as defined in paragraph 3 of Part 1 of Schedule 12A to the Act".	

Part 2

Not open to the Press and Public

13.	**To consider any other business, details of which have been communicated to the Director of Community Assets & Localism before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.**	

Agenda Item No. 3

WYRE FOREST DISTRICT COUNCIL

CABINET

COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY, KIDDERMINSTER

23RD OCTOBER 2012 (6.00PM)

Before the meeting commenced, there was a minute's silence held in memory of the late Peter Carter who had been a District Councillor, County Councillor and former Mayor of Kidderminster.

Present:

Councillors: J-P Campion, N J Desmond, I Hardiman, M J Hart and A T Hingley.

Observers:

Councillor J A Shaw.

CAB.25 Apologies for Absence

There were no apologies for absence.

CAB.26 Declarations of Interests by Members

No declarations of interest were made.

CAB.27 Minutes

Decision: The minutes of the Cabinet meeting held on 18th September 2012 be confirmed as a correct record and signed by the Chairman.

CAB.28 Call Ins

No decisions had been called in since the last Cabinet meeting.

CAB.29 Items Requiring Urgent Attention

There were no items requiring urgent attention.

CAB.30 Leader's Announcements

There were no Leader's announcements.

CAB.31 Council Tax Benefit Reform

A report was considered from the Director of Resources on the Council Tax Benefit Reform.

The Cabinet Member for Resources and Transformation outlined the content of the report and informed Members that the consultation process had been helpful when making the recommendations. These would be presented to the Overview & Scrutiny Committee for their comments and be reported to Cabinet at their November 2012 meeting.

Following the Government's decision to replace the Council Tax Benefit scheme with a localised Council Tax Discount Scheme, Members thought that the proposals were the best option for the Council.

Decision:

To Recommend to the Overview and Scrutiny Committee that:

1. **The principles for the scheme as set out in paragraph 5.3 of the report to Cabinet be approved.**

2. **The changes to the Council Tax exemptions as set out in paragraph 5.6 of the report to Cabinet be approved.**

3. **The changes to the eligibility criteria for access to Council Tax support as set out in paragraph 5.12 of the report to be Cabinet be approved.**

4. **Option 3 as detailed in the report to Cabinet be adopted and limit the support available to people of working age to 90% of their Council Tax liability.**

5. **A Hardship Fund be created with a maximum contribution from Wyre Forest District Council of £25,000 per annum and the proposed criteria for administering the fund included in Appendix 5 of the report to Cabinet be approved.**

CAB.32 Wyre Forest Tenancy Strategy

A report was considered from the Director of Economic Prosperity and Place on the need to adopt a Tenancy Strategy for Wyre Forest and to consider the recommendations from the Overview and Scrutiny Committee on 4th October 2012.

Members were referred to the six key issues in the report and informed that a full consultation had taken place.

Decision: The Wyre Forest District Council Tenancy Strategy be adopted

CAB.33 Recommendations from the Overview and Scrutiny Committee , 4th October 2012

(a) Recommendations from the Housing Review Panel 28th August 2012

The Leader of the Council advised that the recommendations from the Housing Review Panel would be noted and be considered as part of the budget process for 2013/2014.

Noted as follows:

1. **Provision be made in the budget for the 2013/14 financial year and beyond to continue to provide a financial top up above the current minimum government grant of £444k to support Disabled Facilities Grants (DFG's) provision in order to meet the needs of the Wyre Forest District residents.**

2. **Cabinet continue to provide the current level of top up funding from 2013/14, thus enabling an overall fund of £800k to be maintained or if possible exceeded the support for the funding of DFG's.**

3. **A 2 tier element into the budget allocation to ensure that a proportion of the DFG budget be set aside exclusively for Category 3 needs cases be introduced.**

4. **Cabinet to explore alternative funding mechanisms to support the top up, including, but not limited to:**
   - **Prudential Borrowing.**
   - **A first priority for Right to Buy monies.**
   - **Any unallocated funding from the Regional Housing Pot.**
   - **Any alternative sources of funding available to the Council, e.g. New Homes Bonus.**
   - **External Partnership funding from social care partners, e.g. County Council and the NHS.**

5. **Cabinet agree the provision of an alternative adaptation grant/loan mechanism that can be achieved as quickly as possible for simple cases of level access showers and/or stairlifts for example and that such an alternative is used to incentivise self funding or alternative funding sources. Such Adaptation assistance to be developed with partner agencies to minimise processes and the number of steps necessary under the full DFG system and to be used as an alternative but not replacement for DFG's.**

6. **Any necessary amendments to the Housing Assistance Policy be made in support of any of the above alternative funding options.**

7. **A review of the process of dealing with DFG's be undertaken on a Systems Thinking basis.**

8. **Cabinet provide funding or supports funding from external sources for the post of an Occupational Therapist additional to the current District provision, subject to investigation and confirmation of likely costs and benefits.**

(b) Revised Statement of Community Involvement – Consultation Draft

The Leader of the Council informed Members that this decision had already been given using the Notice of Delegation of Decision to a Cabinet Member by Strong Leader model.

Noted: The Draft Statement of Community Involvement as set out at Appendix 1 of the report to the Overview & Scrutiny Committee at the meeting on 4th October 2012 be approved for a six week consultation.

The meeting closed at 6.27 pm.

Agenda Item No. 9.1

WYRE FOREST DISTRICT COUNCIL

CABINET
12TH NOVEMBER 2012

Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review 2012/13

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME:	Stronger Communities
CORPORATE PLAN PRIORITY:	Delivering Together, With Less
CABINET MEMBER:	Councillor N J Desmond
DIRECTOR:	Director of Resources
CONTACT OFFICERS:	Joanne Wagstaffe - Ext. 2100 joanne.wagstaffe@wyreforestdc.gov.uk Tracey Southall - Ext. 2125 tracey.southall@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - Prudential and Treasury Indicators

1. PURPOSE OF REPORT

1.1 To provide Members with a mid-year review of the Council's treasury management policies, practices and activities in accordance with the revised CIPFA Treasury Management Code of Practice.

2. RECOMMENDATION

Cabinet recommends to Council to:-

2.1 Approve this Treasury Management Mid-year Review.

2.2 Approve the updated Prudential Indicators in section 6 of this report.

3. BACKGROUND

3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3 As a consequence, 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."

3.4 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 was adopted by this Council on 29th February 2012.

3.5 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 the Treasury Management Review Panel who will consider and endorse this report on 6th November 2012, and made recommendations to the Overview and Scrutiny Committee to be held on 8th November 2012. Cabinet and Council approval will then be sought.

3.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of 2012/13;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2012/13;
- A review of the Council's borrowing strategy for 2012/13;
- A review of any debt rescheduling undertaken during 2012/13;
- A review of compliance with Treasury and Prudential Limits for 2012/13.

4. ECONOMIC UPDATE

4.1 Economic performance to date

Economic sentiment, in respect of the prospects for the United Kingdom (UK) economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance.

With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (Consumer Price Index (CPI) at 2.6% in July), UK Gross Domestic Product (GDP) fell by 0.5% in the quarter to 30th June, the third quarterly fall in succession. This means that the UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy (G7 = United States (US), Japan, Germany, France, Canada, Italy and UK). It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

This weak recovery has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future.

The Monetary Policy Committee (MPC) has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the European Central Bank (ECB) bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

4.2 Sector's view for the next six months of 2012/13

The risks in economic forecasts continue unabated from the previous treasury strategy. Concern has been escalating that the Chinese economy is heading for a hard landing, rather than a gentle slowdown, while America is hamstrung by political deadlock which prevents a positive approach to countering weak growth. Whether the presidential election in November will remedy this deadlock is debatable but urgent action will be required early in 2013 to address the US debt position. However, on 13th September the Federal Reserve Bank (Fed) announced an aggressive stimulus programme for the economy with a third round of quantitative easing focused on boosting the stubbornly weak growth in job creation, and this time with no time limit. They also announced that it was unlikely that there would be any increase in interest rates until at least mid 2015.

Eurozone growth will remain weak as austerity programmes in various countries curtail economic recovery. A crunch situation is rapidly developing in Greece as it has failed yet again to achieve deficit reduction targets and so may require yet another (third) bail out. There is the distinct possibility that some of the northern European countries could push for the ejection of Greece from the Eurozone unless its financial prospects improve, which does not seem likely at this juncture.

A financial crisis was also rapidly escalating over the situation in Spain. However, in early September the ECB announced that it would purchase unlimited amounts of shorter term bonds of Eurozone countries which have formally agreed the terms for a bailout. Importantly, this support would be subject to conditions (which have yet to be set) and include supervision from the International Monetary Fund (IMF). This resulted in a surge in confidence that the Eurozone has at last put in place the framework for adequate defences to protect the Euro. However, it remains to be seen whether the politicians in charge of Spain and Italy will accept such loss of sovereignty in the light of the verdicts that voters have delivered to the politicians in other peripheral countries which have accepted such supervision and austerity programmes.

The Eurozone crisis is therefore far from being resolved as yet. The immediate aftermath of this announcement was a rise in bond yields in safe haven countries, including the UK. Nevertheless, this could prove to be as short lived as previous "solutions" to the Eurozone crisis.

The Bank of England Quarterly Inflation Report in August pushed back the timing of the return to trend growth and also lowered its inflation expectations. Nevertheless, concern remains that the Bank's forecasts of a weaker and delayed robust recovery may still prove to be over optimistic given the world headwinds the UK economy faces. Weak export markets will remain a drag on the economy and consumer expenditure will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears. The Coalition Government, meanwhile, is likely to be hampered in promoting growth by the requirement of maintaining austerity measures to tackle the budget deficit.

The overall balance of risks is, therefore, weighted to the downside:

- Sector expect low growth in the UK to continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.

- The expected longer run trend for PWLB borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increases in yield.

- This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then Bank Rate is likely to be depressed for even longer than in this forecast.

4.3 Sector's interest rate forecast:

4.3.1 The Council's treasury advisor, Sector, provides the following forecast:

	17.9.12 actual	**Dec-12**	**Mar-13**	**Jun-13**	**Sep-13**	**Dec-13**	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**	**Mar-15**
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3m LIBID	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.90	1.10	1.40
6m LIBID	0.85	0.85	0.85	0.85	0.85	0.85	1.00	1.10	1.30	1.50	1.80
12m LIBID	1.30	1.30	1.30	1.30	1.40	1.50	1.70	1.90	2.10	2.30	2.60
5yr PWLB	1.89	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.30
10yr PWLB	2.91	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00	3.20	3.30

25yr PWLB	4.15	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30
50yr PWLB	4.32	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30	4.40	4.50

4.3.2 The above Sector forecasts for Public Works Loan Board (PWLB) rates incorporate the introduction of the **PWLB Certainty Rate** which will reduce PWLB borrowing rates by 0.20% for most local authorities. This Council will have access to this reduced rate with effect from 1st November 2012. The actual PWLB rates on 17th September 2012 will therefore need to be reduced by 20bps to provide a true comparison to the above forecasts.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

5.1 The Treasury Management Strategy Statement (TMSS) for 2012/13 was approved by this Council on 29th February 2012.

5.2 The Investment Policy and Strategy Statement was amended by Council on 26th September 2012 to increase the counterparty/group limit to 50% with a maximum limit of £5m (whichever is the lower) for the UK part-nationalised banks, by exception only. Where an investment is above 25% this will need prior approval by the Director of Resources.

5.3 This change, that took immediate effect following approval, allows the Council to secure effective rates of return whilst ensuring that the funds are placed with those counterparties that are considered to be a low risk, demonstrating security and liquidity over yield.

5.4 There are no further policy changes to the TMSS that require Council approval. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5.5 The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

5.6 The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 3 months), and only invest with highly credit rated financial institutions, using Sectors suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Sector. The Council placed an investment on 25th July 2012 with Lloyds Bank plc for just under 12 months duration. This was in accordance with our risk appetite to improve yield and in line with Sector's guidance and counterparty creditworthiness indicators at that time.

5.7 A breakdown of the Council's current investment portfolio as at 30th September 2012 is shown in Section 7 of this report.

5.8 Borrowing rates have been at historically low rates during the first six months of the 2012/13 financial year. There continued to be no requirement for external borrowing as at 30th September 2012. Investments during the first six months of the year have been in line with the strategy, and there have been no deviations from the strategy.

5.9 As outlined in Section 4 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

6.1 This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

6.2 Prudential Indicator for Capital Expenditure

This table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed for the Budget.

Capital Expenditure by Service/Major Schemes	2012/13 Original Estimate £'000	Mid Year Position £'000	2012/13 Revised Estimate £'000
New Headquarters - Accommodation	3,226	2,811	3,855
Contribution towards replacement of Civic Facilities in Stourport-On-Severn	450	-	450
Economic Prosperity and Place	2,445	202	2,211
Community Well-being and Environment	2,197	2	2,351
Resources	1,143	275	1,768
Community Assets and Localism	-	-	10
Vehicle, Equipment and Systems Renewals	705	3	808
Total	10,166	3,293	11,453

6.3 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2012/13 Original Estimate £'000**	**Mid Year Position £'000**	**2012/13 Revised Estimate £'000**
Supported (Revenue Support Grant Settlement)	-	-	-
Unsupported	10,166	3,293	11,453
Total spend	**10,166**	**3,293**	**11,453**
Financed by:			
Capital receipts	4,292	3,086	5,659
Capital grants	1,419	202	1,494
Revenue	20	-	-
Total financing	**5,731**	**3,288**	**7,153**
Borrowing need	**4,435**	**5**	**4,300**

6.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

The latest estimate of the Capital Financing Requirement is lower due to slippage in several capital schemes.

Prudential Indicator – External Debt / the Operational Boundary

	2012/13 Original Estimate £'000	**2012/13 Revised Estimate £'000**
CFR	10,996	8,668
External Debt/Operational Boundary	15,000	15,000

6.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and next two financial years. This allows some flexibility for borrowing for the current and future years. The Council has approved a policy setting out the parameters for borrowing in advance of need which will be adhered to if this proves prudent (TMSS Section 9.6).

Limits to Borrowing Activity	**2012/13 Original Estimate £'000**	**2012/13 Revised Estimate £'000**
Gross Borrowing	8,233	5,524
Less Investments	-	(5,274)
Less Icelandic Investments (currently frozen)	(1,796)	(1,903)
Net Borrowing	6,437	(1,653)
CFR (year end position)	10,996	8,668

The Director of Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

6.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	**2012/13 Original Indicator £'000**	**2012/13 Revised Indicator £'000**
Borrowing	20,000	20,000

7. INVESTMENT PORTFOLIO 2012/13

7.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

7.2 The Council has invested in the Blackrock Money Market Investment Fund, initially depositing £2million on 24th September 2012. This is a AAA rated Money Market Fund that gives the advantage of low risk with slightly improved returns. This is the second time that Money Market Funds have been used. Given their high credit ratings it is likely that the Council will continue to utilise this form of investment. For further information, the Council subsequently invested in the AAA rated Ignis Money Market Investment Fund, depositing an initial £1.62million on 4th October 2012.

7.3 The investment portfolio yield for the first six months of the year against the benchmark (7 Day LIBID) as shown below:

Benchmark	Benchmark Return	Council Performance to 30/09/2012	Investment Interest Earned to 30/09/2012
7 day LIBID	0.43%	0.67%	£39,210

As illustrated, the authority outperformed the benchmark by 24 bank basis points (bps). The Council's original budgeted investment return for 2012/13 is £15,380, and performance for the year to date is £39,210. The main reason for this increase is that the Council currently has more funds to invest due to Capital Programme slippage. The Council is also a member of the Sector Benchmarking Club, the results of which are reported separately to the Treasury Management Review Panel.

7.4 The tables below show investments held at 2nd April 2012 compared to investments held at 30th September 2012, excluding Icelandic investments.

Investments Held With	2nd April 2012 £	Average Rate of Return	Duration
Royal Bank of Scotland	1,000,000	0.85%	Instant Access
NatWest Bank	1,000,000	0.85%	Instant Access
Lloyds TSB Bank	865,000	0.50%	Instant Access
Lloyds TSB Bank	1,200,000	0.75%	32 Day Notice
Barclays Bank	1,500,000	0.515%	Fixed to 13/04/12
Nationwide Building Society	1,400,000	0.55%	1 Month Fixed
Nationwide Building Society	1,000,000	0.60%	Fixed to 11/05/12
Bank of England	3,880,000	0.25%	Fixed to 10/04/12

Total	**11,845,000**		

Investments Held With	30th September 2012 £	Average Rate of Return	Duration
Royal Bank of Scotland	1,400,000	0.85%	Instant Access
NatWest Bank	1,665,000	0.85%	Instant Access
Lloyds TSB Bank	700,000	0.50%	Instant Access
Lloyds TSB Bank	1,000,000	3.00%	Fixed to 04/07/13
Lloyds TSB Bank	1,000,000	1.40%	Fixed to 22/11/12
Nationwide Building Society	2,000,000	0.40%	Fixed to 17/10/12
Blackrock Money Market Fund	2,000,000	0.4214%	Instant Access
Total	**9,765,000**		

7.5 As illustrated in the economic background section above, investment rates available in the market are at a historical low point. The average level of funds available for investment purposes in the first six months of 2012/13 was £11,712,229. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

7.6 Investment Counterparty criteria

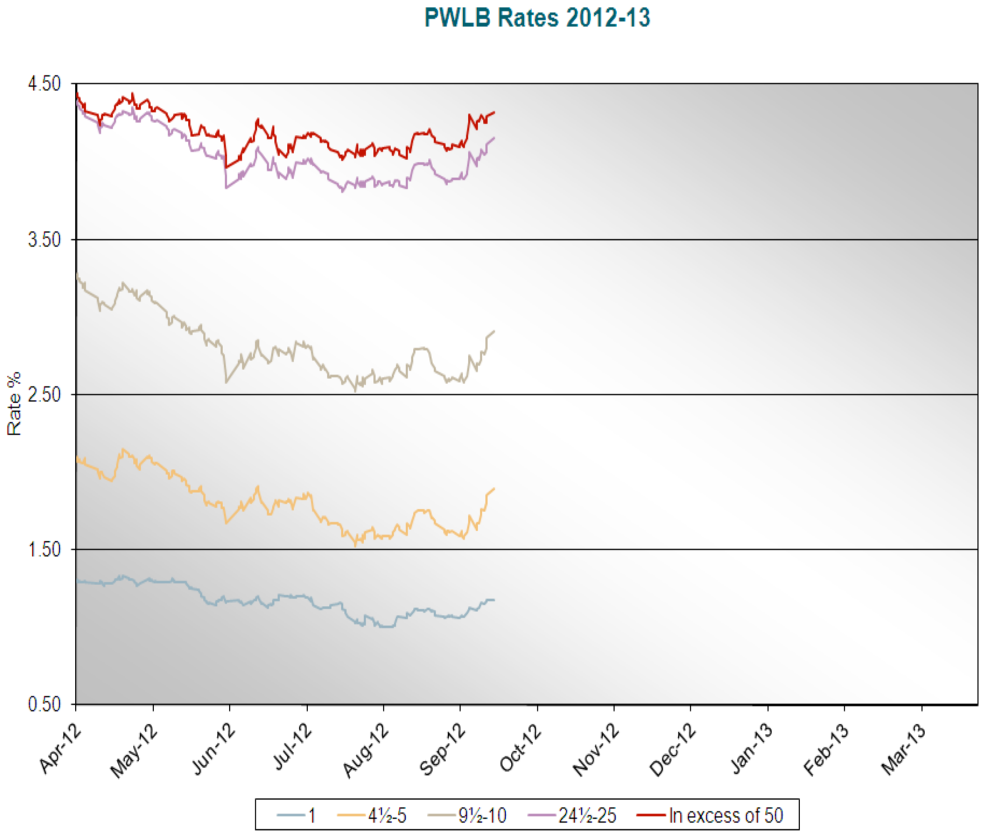
The current investment counterparty criteria selection approved in the TMSS, amended by Council on 26th September 2012, is meeting the requirement of the treasury management function. However, yields continue to be low whilst the Council adheres to the low risk strategy due to the current economic climate.

8. <u>EXTERNAL BORROWING</u>

8.1 The Council's capital financing requirement (CFR) – as at 1st April 2012 was £4.570m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. In previous years the Council utilised cash flow funds in lieu of borrowing. This has been a prudent and cost effective approach in the current economic climate; it is no longer sustainable as the Council's cash balances are utilised. It is anticipated that the Council will undertake some external borrowing in this financial year.

8.2 As outlined below, the general trend has been a reduction in interest rates during the six months, across all maturity bands.

8.3 The graph below shows the movement in PWLB rates for the first six months of the year and provide benchmarking data showing high and low points etc:



9. DEBT RESCHEDULING

9.1 Since this Council currently has minimal external debt, there has been no requirement for debt rescheduling during the first six months of 2012/13.

10. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Policy and Strategy Report.

10.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

10.3 The Prudential and Treasury Indicators are shown in Appendix 1. These have been updated for the slippage in the Capital Programme and the associated requirements to undertake external borrowing.

11. LOCAL ISSUES

11.1 The most significant issue to affect the Council relates to the exposure of investments with links to Icelandic Banks. The Council established the Treasury Management Review Panel which examined the circumstances leading up to the placing of the particular investments and continues to consider recommendations in relation to the Council's lending lists and other relevant Treasury Management matters.

11.2 The Council had £9m invested in Icelandic Banks at the time of collapse. Eight dividends have been received up to 30th September 2012 from Kaupthing Singer & Freidlander (KSF). Twelve dividends have been received up to 30th September 2012 from Heritable Bank. Two dividends have been received up to 30th September 2012 from Landsbanki. Further dividends are anticipated before the end of the current financial year.

11.3 The table below details the Councils Icelandic investments as at 30th September 2012. A third dividend of was paid by Landsbanki on 9th October 2012, reducing the principal investment to £1,581,434. It is expected that both KSF and Heritable will pay further dividends in January 2013.

Icelandic Investments as at 30th September 2012

Bank	Original Investment £	Interest Claimed £	Total Claim £	Dividends Received £	Balance Outstanding including Interest Due £	Balance Outstanding Principal Only £
Landsbanki	3,000,000	183,097	3,183,097	1,319,647	1,863,450	1,756,254*
Kaupthing Singer & Friedlander	5,000,000	156,378	5,156,378	3,764,156	1,392,222	1,350,000
Heritable Bank	1,000,000	31,110	1,031,110	768,817	262,293	254,640
Total	**9,000,000**	**370,585**	**9,370,585**	**5,852,620**	**3,517,965**	**3,360,894**

*Further dividend of £185,496 received on 9th October 2012

11.4 Over this, and the ensuing years, the funds available for investment will reduce as the Council progresses its Transformation Agenda in areas such as finalising the New Headquarters, the completion of the implementation of the ICT Strategy, the Carbon Management Plan and the Future Leisure Provision. Each of the schemes above are being pursued to ensure that the Council can reduce the on-going cost of delivering services.

11.5 Over the coming years the Council is also scheduled to make disposals of assets. Careful consideration will be made on each opportunity to ensure that the Council sells at a time that maximises the return to the authority.

12. KEY ISSUES

12.1 The Key issues are contained in sections 3 to 11 of this report.

12.2 As reported previously, the returns the Council is currently receiving from investments are significantly lower than those achieved during years up to 2007/08. Although we are forecasting increases in interest rates in later years, increases are expected to be modest and implemented over a long period.

13. FINANCIAL IMPLICATIONS

13.1 The Financial Implications of the treasury management function will be included in the Council's Medium Term Financial Strategy and Three Year Budget and Policy Framework, currently being prepared.

14. LEGAL AND POLICY IMPLICATIONS

14.1 The Local Government Act 2003 supplemented by Regulations set out a new framework for a prudential system for local authority capital finance. This Act, together with CIPFA's Prudential Code for Capital Finance in Local Authorities, came into effect on 1st April 2004. This code together with recent revised editions, guides decisions on what Local Authorities can afford to borrow and has statutory backing under Regulations issued in accordance with the Local Government Act 2003.

14.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Authority's Standing Orders and Financial Regulations, gives it the status of a "code of practice made or approved by or under any enactment", and hence proper practice under the provisions of the Local Government and Housing Act 1989.

15. RISK MANAGEMENT

15.1 The Council is aware of the risks of passive management of the treasury portfolio. With the support of its external consultants we continue to proactively manage our investments. Sector are the Council's advisors, appointed from 1st September 2010.

15.2 Shorter-term variable rates and likely future movement in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.

16. EQUALITY IMPACT ASSESSMENT

16.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment.

17. CONCLUSION

17.1 See Recommendations.

18. CONSULTEES

18.1 Sector Treasury Advisors.
18.2 Leader of the Council.
18.3 Cabinet Member for Resources and Transformation.
18.4 Corporate Management Team.

19. BACKGROUND PAPERS

19.1 Local Government Act 2003.
19.2 CIPFA's Revised Prudential Code for Capital Finance in Local Authorities, 2011.
19.3 CIPFA's Revised Code of Practice on Treasury Management in the Public Services, 2011.
19.4 Local Government and Housing Act 1989.
19.5 Council 29/02/12 – Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and updated Prudential Indicators.
19.6 Council 26/09/12 - Annual Report on Treasury Management Service, Actual Prudential Indicators 2011/12 and Revision to the Investment Policy and Strategy Statement 2012/13.

APPENDIX 1 Prudential and Treasury Indicators

PRUDENTIAL INDICATORS	2011/12	2012/13	2013/14	2014/15	2015/16
	actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	7,763	11,453	2,794	12,195	995
TOTAL	7,763	11,453	2,794	12,195	995
Ratio of financing costs to net revenue stream	0.08%	1.66%	4.69%	6.51%	11.62%
Net borrowing requirement					
brought forward 1 April	(17,609)	(11,111)	(1,653)	1,826	12,943
carried forward 31 March	(11,111)	(1,653)	1,826	12,943	14,632
Capital Financing Requirement as at 31 March	4,570	8,668	9,233	18,704	18,493
Annual change in Capital Financing Requirement	1,611	4,098	565	9,471	(211)
Incremental impact of capital investment decisions			£ p	£ p	£ p
Increase in council tax (band D) per annum			6.71	14.27	22.11

TREASURY MANAGEMENT INDICATORS	2011/12	2012/13	2013/14	2014/15	2015/16
	actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	15,000	20,000	20,000	30,000	33,000
other long term liabilities	0	0	0	0	0
TOTAL	15,000	20,000	20,000	30,000	33,000
Operational Boundary for external debt -					
borrowing	7,000	15,000	15,000	25,000	27,000
other long term liabilities	0	0	0	0	0
TOTAL	7,000	15,000	15,000	25,000	27,000
Actual external debt	27	5,524	7,521	17,653	19,650
Upper limit for fixed interest rate exposure					
Net principal re fixed rate investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£	£	£	£	£
(per maturity date)	4m	2m	2m	2m	2m

Maturity structure of fixed rate borrowing during 2012/13	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%