N0N-CONFIDENTIAL

BOROUGH OF TAMWORTH

CABINET

13 February 2014

A meeting of the CABINET will be held on Thursday, 20th February, 2014, 6.00 pm in Committee Room 1 Marmion House, Lichfield Street, Tamworth

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A G E N D A

NON CONFIDENTIAL

6 Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2014/15 (Pages 1 - 96)
(Report of the Leader of the Council)

Yours faithfully

Chief Executive

People who have a disability and who would like to attend the meeting should contact Democratic Services on 01827 709264 or e-mail committees@tamworth.gov.uk preferably 24 hours prior to the meeting. We can then endeavour to ensure that any particular requirements you may have are catered for.

To Councillors: D Cook, R Pritchard, S Claymore, S Doyle, M Greatorex and J Oates

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CABINET

20th February 2014

COUNCIL

25th February 2014

Report of the Leader of the Council

CORPORATE VISION, PRIORITIES PLAN, BUDGET & MEDIUM TERM FINANCIAL STRATEGY 2014/15

Purpose

- To approve the Single Corporate Vision & Strategic Priorities for 2014/15 **(attached at Appendix A)**.

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

    - General Fund Revenue Budget and Council Tax for 2014/15;
    - Housing Revenue Account (HRA) Budget for 2014/15;
    - Three Year General Fund Capital Programme (2014/17);
    - Five Year HRA Capital Programme (2014/19);
    - Three Year Medium Term Financial Strategy (MTFS) for the General Fund (GF) (2014/17); and
    - Five Year Medium Term Financial Strategy (MTFS) for the HRA (2014/19).

- 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.

Recommendations

That Council approve:

1. **the Single Corporate Vision & Strategic Priorities for 2014/15 (Appendix A);**
2. **the proposed revisions to Service Revenue Budgets (Appendix C);**
3. **the sum of £53,509 be applied from Council Tax Collection Fund surpluses in reducing the Council Tax demand in 2014/15 (Appendix E);**
4. **that on 28th November 2013, the Cabinet calculated the Council Tax Base 2014/15 for the whole Council area as 20,389 [Item T in the formula in Section 31B(3) of the Local Government Finance Act 1992, as amended (the "Act")];**
5. **that the Council Tax requirement for the Council's own purposes for 2014/15 is £3,170,490 (Appendix E);**
6. **the following amounts as calculated for the year 2014/15 in accordance with Sections 31 to 36 of the Act:**
   a. **£55,380,738 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act (Outgoings excluding internal GF Recharges);**
   b. **£52,210,248 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act (Income excluding internal GF Recharges);**
   c. **£3,170,490 being the amount by which the aggregate at 6(a) above exceeds the aggregate at 6(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year (Item R in the formula in Section 31A(4) of the Act);**
   d. **£155.50 being the amount at 6(c) above (Item R), all divided by Item T (at 4 above), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year;**
7. **the Council Tax level for the Borough Council for 2014/15 of £155.50 (an increase of £3.00 (1.97%) on the 2013/14 level of £152.50) at Band D;**
8. **an aggregate Council Tax (comprising the respective demands of the Borough Council, Staffordshire County Council, Office of the Police and Crime Commissioner Staffordshire and Stoke-on-Trent and Staffordshire Fire and Rescue Authority) of £1,428.00 at Band D for 2014/15 be noted (Appendix H);**
9. **the Council Tax levels at each band for 2014/15 (Appendix H);**
10. **the sum of £1,195,653 be transferred from General Fund Revenue Balances in 2014/15 (Appendix E);**
11. **the Summary General Fund Revenue Budget for 2014/15 (Appendix E);**
12. **the Provisional Budgets for 2015/16 to 2016/17, summarised at Appendix G, as the basis for future planning;**

13. the minimum level for balances of £500k to be held for each of the General Fund, Housing Revenue Account, General Capital Fund & Housing Capital Fund;

14. 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;

15. the creation of a new Transformation Reserve (revenue) of £300k (up to a maximum of £500k) to support the 'Planning for a Sustainable Future' strategy, financed from the current earmarked capital reserve;

16. the proposed HRA Expenditure level of £14,429,640 for 2014/15 (Appendix D);

17. rents for Council House Tenants in 2014/15 be increased by an average of £3.78 per week (4.6%) to £86.60 (2013/14 £82.82), in line with the Government's Rent Restructuring rules;

18. rents for Council House Tenants due for 52 weeks in 2014/15 be collected over 48 weeks;

19. the HRA deficit of £984,240 be financed through a transfer from Housing Revenue Account Balances in 2014/15 (Appendix D);

20. the proposed 3 year General Fund Capital Programme of £4m, as detailed in Appendix I to the report;

21. the proposed 5 year Housing Capital Programme of £52.5m, as detailed in Appendix J to the report;

22. 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;

23. the Treasury Management Strategy Statement, the Treasury Management Policy Statement, Minimum Revenue Provision Strategy and Annual Investment Statement 2014/15 (as detailed at Appendix N);

24. the Prudential and Treasury Indicators and Limits for 2014/15 to 2016/17 contained within Appendix N;

25. the adoption of the Treasury Management Practices contained within ANNEX 7; and

26. the detailed criteria of the Investment Strategy 2014/15 contained in the Treasury Management Strategy within ANNEX 3.

Executive Summary

Long before the current austerity measures and on-going public sector spending cuts, Tamworth Borough Council has been proactive in the design and implementation of innovative and effective measures for driving efficiency.

It has previously been recognised by the Council's Executive Management Team (a non-decision making forum of Cabinet members and Chief Officers of the Corporate Management Team) that Members will need to focus on strategic decisions relating to high level financial issues as flexibility within future budgets will be extremely limited given the need to identify substantial savings following significant constraints in public spending (post grant reductions of 34% since 2010 and announcements from CSR 2013 of further grant reductions for District Councils of over 15% from 2015/16 – over 40% in real terms since 2010/11).

There also remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation with effect from 1st April 2013, arising from Business Rates Retention, changes in Support for Council Tax and technical reforms to Council Tax - as well as other changes arising the Government's Welfare Reform agenda.

The Council holds sufficient funds in reserves and balances to allow it to plan its approach to budget setting, and Cabinet, on 22nd August 2013, endorsed the document 'Planning for a Sustainable Future' as the overarching strategy for meeting the challenges forecast for the Council's Medium Term Financial Strategy (MTFS) and a series of workstreams designed to deliver savings and efficiencies designed to tackle the forecast deficit long before it becomes a reality. This includes exploring new and innovative ideas and to be more commercial in our approach to business.

The proposals arising from the work streams will change the organisation and how it works; will require Members to take difficult decisions and adhere to them; will involve managed risks and will sustain **essential services critical in supporting the most vulnerable in our communities at a time when demand is increasing and resources reduce**. Whether to implement change, react to funding reductions or simply to ensure compliance with reforms, the adoption of a "problem solving" approach to accommodating change has enabled the Council to maintain high quality public services.

Clearly, this has not been achieved in isolation. The principle of "collaboration" runs through the core of all we do. Whether this be internal; across services, directorates or even in respect of member and officer relations, there is strong collaboration, Tamworth is known for its successes in 'partnership' working. These span a broad range that include a nationally recognised, co-located multi-agency Community Safety Hub; an award winning Waste Management & Recycling arrangement with Lichfield District Council; an Education & Skills Board, a local Health & Well-being Board and over £500k worth of services commissioned from Third Sector partners. In addition, Cabinet on 23rd January 2014 approved a Memorandum of Understanding securing the potential future shared service opportunities with Lichfield District Council.

This budget report incorporates the Single Corporate Vision & Strategic Priorities of the Authority which are reflected within the Budget 2014/15 & 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.

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 essence, the Shared Strategic Vision and Priorities **To Aspire & Prosper and, To be Healthier & Safer** are predicated by the need for Tamworth Borough Council to be a viable and sustainable strategic entity; a priority in its own right. Therefore, the Executive Management Team will need to focus upon strategic decisions relating solely to high level financial issues as yet again, flexibility within budgets throughout the period of the MTFS will be extremely limited.

In order to sustain this commitment further and to ensure that those most vulnerable in our communities are supported and/or protected, further consideration and reviews of non-essential services will be necessary.

The Corporate Change Programme will assist in identifying better and more efficient ways of providing services at potentially lower costs - from more efficient use of assets and resources through Agile Working - including Electronic Document & Records Management Systems (EDRMS), Website improvements & Customer Relationship Management (CRM) which should help to mitigate future reductions in estimated external Central funding (Revenue Support Grant & Business rate retention) and income reductions. This process is ongoing and is expected to deliver further efficiencies for future budget considerations.

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 2014/15 are:

- A General Services total cost of services of £9,132,290 an increase of 1.9%;
- A transfer of £1,195,653 from General Fund (GF) balances;
- a Housing Revenue Account (HRA) Expenditure level of £14,429,640 for 2014/15 (excluding interest & similar charges);
- A transfer of £984,240 from HRA balances;
- The Band D Council Tax would be set at £155.50, an increase of £3.00 (1.97%) - 2013/14 of £152.50;
- An average rent of £86.60 which represents an increase of £3.78 (4.6% on the current average rent of £82.82) in line with the Government's Rent Restructuring rules (based on a 49 week rent year), equating to £79.94 on an annualised 52 week basis;

- A General Fund Capital Programme of £4m (for 3 years);

- A Housing Capital Programme of £52.5m (including c. £29.5m relating to the Regeneration Projects) for 5 years.

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.

There are a number of key challenges affecting the medium term financial planning process (as detailed within the report), which add a high level of uncertainty to budget projections.

The medium term financial planning process is being challenged by the economic downturn / recession & Government austerity measures. The accomplishment of a balanced 3 year Medium Term Financial Strategy for the General Fund 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, 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.

There is also a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation - from 1st April 2013 - Business Rates Retention, changes in Support for Council Tax and technical reforms to Council Tax - as well as other changes arising from the Government's Welfare Reform agenda.

In order to assist in the estimate of the impact on the MTFS, a number of models have been assessed (using external advisors) to arrive at a prudent projection for future external funding levels.

Additional demands for services (i.e. benefits & housing) arising from these austere times have been included where possible but this is dependent on the length and depth of the downturn.

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 at **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 2014/15 to 2016/17 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 should ensure that 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).

Resource Implications

A summary table of all the budget proposals is shown at the end of the report. The General Fund Summary Revenue Budget for 2014/15, appears at **Appendix E**. A summary of the resulting budgets over the 3 year period appears at **Appendix G**. Closing balances over 3 years for the General Fund (GF) are estimated at £0.5m, the minimum approved level. The draft Budget and Medium Term Financial Strategy is based on a council tax increase of 1.97% for 2014/15 (the maximum permitted under the Government set limits to trigger a referendum is 2.0%) followed by increases at 1.99% p.a. thereafter & in line with statutory requirements.

The Summary HRA Revenue Budget for 2014/15 appears at **Appendix D** (including a summary of the resulting budgets over the 5 year period). Closing balances over 5 years for the HRA are estimated at £1.5m (compared to the minimum approved level of £0.5m).

The 3-year General Fund Capital 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 £2.2m over 5 years (the approved minimum level is £0.5m) including £1.8m remaining within the Regeneration Reserve.

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 Executive Director – Corporate Services' 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.

Legal / Risk 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 the Joint Scrutiny Committee (Budget) meeting on 28th January 2014. In line with the constitution a Joint Scrutiny Budget Workshop was held on 3rd December 2013 to outline the issues affecting the MTFS arising from the base budget forecast.

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

Proposed amendments to the 2013/14 base budget, approved by Council on 26th February 2013, are detailed within the report.

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement 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.

Key Risks to Revenue and Capital Forecasts:

Risk	**Control Measure**
Major variances to the level of grant / subsidy from the Government (including specific grants e.g. Benefits admin.); (**High)**	Sensitivity modelling undertaken to assess the potential impact in the estimation of future grant levels; **(Medium / High)**
New Homes Bonus grant levels lower than estimated; Continuation of the scheme in its current form is uncertain – a further review is planned Spring 2014. **(High/Medium)**	Future levels included on a risk based approach in order to offset further grant reductions / uncertainty over additional property numbers; **(Medium)**
Potential 'capping' of council tax increases by the Government or local Council tax Veto / referendum; **(Medium)**	Current indications are that increases of 2% and above risk 'capping' (confirmed as 2% for 2014/15); **(Low)**
The achievement of substantial savings / efficiencies will be needed to ensure sufficient resources will be available to deliver the Council's objectives through years 4 to 5. Ongoing; **(High)**	A robust & critical review of savings proposals will be required / undertaken before inclusion within the forecast; A minimum General Fund capital balance of £500k is a requirement – this has been financed in the past by revenue contributions (held in a revenue reserve).

Risk	Control Measure
	Due to the need to fund Transformation changes, it is recommended that the anticipated capital receipts of c.£300k from the approved sale of land parcels (Cabinet minutes 108/2011 & 84/2013 refer) be utilised (as part of the minimum approved level of capital balances) to allow the current earmarked capital reserve (revenue funded) to be released for the creation of a new Transformation Reserve (revenue) to fund any costs arising from the workstream reviews **(High/Medium)**
Pay awards greater than forecast; **(Medium)**	Forecast assumes a 1% increase for 2 years, in line with Government announcements, with 2% p.a. increases thereafter; **(Medium / Low)**
Pension costs higher than planned / adverse performance of pension fund; **(Medium)**	Regular update meetings with Actuary; Increases of c.1% p.a. with a new 'lump sum' element have been included with agreement made with Pension Fund following triennial review (during 2013 for 2014/15) for next 3 years; **(Medium)**
Assessment of business rates collection levels to inform the forecast / budget (NNDR1) and estimates of appeals, mandatory & discretionary reliefs, cost of collection, bad debts and collection levels; New burdens (section 31) grant funding for Central Government policy changes – including impact on levy calculation; **(High)**	Robust estimates included to arrive at collection target. Ongoing proactive management & monitoring will continue during 2014/15; Potential mitigation regulations expected in the event of significant adverse events; Proposed Business Rates Collection Reserve - provision of reserve funding to mitigate impact of any changes in business rate income levels; **(High / Medium)**
Council tax support scheme implementation – potential yield changes and maintenance of collection levels; **(High)**	Robust estimates included. Ongoing proactive management & monitoring (including a quarterly healthcheck on the implications on the organisation – capacity / finance) will continue during 2014/15; **(High / Medium)**
Achievement of income streams in line with targets e.g. treasury, car parking, planning etc; **(High/Medium)**	Robust estimates using a zero based budgeting approach have been included; **(Medium)**
Delivery of the capital programme (GF / HRA) dependent on funding through capital receipts and grants; **(High/Medium)**	Robust monitoring and evaluation – should funds not be available then schemes would not progress. **(Medium)**

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:

If Members would like further information or clarification prior to the meeting please contact Stefan Garner Ext. 242.

Background Papers:-	**Budget & Medium Term Financial Strategy 2013/14 – 2015/16, Council 26th February 2013**
	Budget and Medium Term Financial Planning Process, Cabinet 12th September 2013
	Budget Consultation Report, Cabinet 24th October 2013
	Draft Base Budget Forecasts 2014/15 to 2018/19, Cabinet 28th November 2013
	Treasury Management Strategy Statement & Annual Investment Strategy Mid-year Review Report 2013/14, Council 17th December 2013
	Draft Budget and Medium Term Financial Strategy 2014/15 to 2018/19, Cabinet 23rd January 2014
	Business Rates Income Forecast (NNDR1 return), Cabinet 23rd January 2014
	Treasury Management Practices 2013/14 (Operational Detail)

Summary of Appendices

Description	Appendix
Single 'Vision' for Tamworth	A
Detailed Considerations	B
Policy Changes	C
HRA Budget Summary 2013/14 – 2018/19	D
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Appendix A

A SINGLE 'VISION' FOR TAMWORTH

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

This single, shared "Vision" for Tamworth is endorsed by all key partners in the local Partnership arena and underpinned by high level, evidence based priorities that focus upon both Tamworth (the place) and the communities served by the partner organisations (the people).

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 Anti-social behaviour (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

Appendix B

Detailed Considerations

Introduction

The Council's approach to medium term planning aims to integrate the Council's Corporate and financial planning processes. In accordance with that approach this report contains firm proposals for 2014/15 and provisional proposals for the following 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 2013/14 budget to arrive at the starting point for 2014/15. 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 MTFS used as the basis for the 2014/15 budget, aimed both to deal with a challenging financial position and to find resources to address the Council's corporate priorities. The approved package was based upon:

- The need to compensate for reduced income levels arising from the unprecedented economic / world events which have led to the economic downturn / recession;
- Injecting additional resources into corporate priorities;
- Increasing income from council tax and fees and charges;
- Making other savings and efficiencies.

Financial Background

The medium term financial planning process is being challenged by the uncertain economic conditions. There are a number of challenges affecting the Medium Term Financial Planning process for the period from 2014/15 which add a high level of uncertainty to budget projections.

a) the level of future New Homes bonus levels;

b) Future Revenue Support Grant levels following indications as part of the 2013 Comprehensive Spending Review and subsequent *Local Government Finance Settlement 2014-15 and 2015-16 Technical Consultation* issued by the DCLG in July 2013 and the grant settlement for 2014/15 & 2015/16 received in December 2013 following the Chancellor's Autumn Statement;

c) The impact of Business Rate Reform from 1st April 2013 and the associated forecast business rates receivable in 2013/14 and future years – of which the Council's budget will receive 40% (subject to 20% levy reduction on 'excess' rates payable to the Greater Birmingham & Solihull Local Enterprise Partnership (GBSLEP) after deduction of the 50% Central Share, 9% County Council and 1% Fire & Rescue Authority share – including clarification from DCLG of treatment of Small Business Rate Relief Grant (& the impact of the 2% multiplier cap in terms of new burdens grant);

d) The calculation of the level of business rate appeal costs (subject to DCLG guidance) – of which the Council has to fund 40% from its own budgets, subject to approval of regulations which may allow the cost to be spread over 5 years;

e) Future Pension contribution levels following the triennial review carried out by the Actuaries employed by the Pension Fund - *ongoing* annual increases in employer's contributions of 2% p.a. for the next 3 years were indicated but have now been revised to c.1% p.a. for the next 3 years (with a new 'lump sum' element);

f) The impact of Pension Auto-Enrolment and the single tier pension from 2016/17 – no additional cost associated with auto enrolment has been included as salary budgets are prepared on a full cost basis (and then reduced by the 5% vacancy allowance).

   An increase in Employer's National Insurance contributions of 3.4% p.a. have been included from 2016/17 when the single-tier pension starts as the State Second Pension scheme will close and contracting out will end;

g) While the Government announced a pay cap for 2014/15 & 2015/16, the impact of inflation on pay settlements and other contractual arrangements for future years is less certain;

h) Proposed changes set out in the Welfare Reform Act 2012 and the introduction of Universal Credit – impact on housing benefits and associated income receipts (including Housing Rents) of the council. In addition, future Housing Benefit and Localised Council Tax Scheme Administration grant levels are still to be confirmed for 2015/16 onwards;

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

j) The severity of the recession and the impact it has had and still could have on the Council's income streams (including the impact of the Local Council Tax Scheme on council tax collection levels – healthcheck reports on the impact of welfare benefit reform are reviewed regularly by senior management as part of the monitoring process);

k) Finalisation of the expected outcomes and impact on the Council's financial position from the programme of short-term and medium-term workstream reviews commissioned by Cabinet in August 2013 as part of the 'Planning for a Sustainable Future' overarching strategy to identify measures to help the Council cope with grant & income reductions in the coming years;

l) Review and finalisation of the revised budgets/policy changes and feedback from the Scrutiny process – including the Council Tax increase for 2014/15 following confirmation of the referendum threshold.

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 at **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 x% movement:	% + / -	Impact over 1 year +/-	Impact over 3 years +/-	Risk
		£'000	£'000	
Pay Award / National Insurance (GF)	0.5%	43	264	M/H
Pension Costs	0.0%	0	0	L/M
Council Tax	0.5%	16	98	L/M
Inflation / CPI	0.5%	39	237	M/H
Government Grant	1.0%	46	247	M/H
Investment Interest	0.5%	126	673	H
Key Income Streams	0.5%	26	156	M/H
New Homes Bonus	10%	52	350	M/H
Business Rates income / levy	0.5%	64	384	M/H

GENERAL FUND

The final Local Government finance settlement figures for Tamworth for 2014/15 have recently been announced and there is little change from those provisionally released in December. They show that the Government funding assessment (Revenue Support Grant (RSG) plus the new business rates baseline retained income) totals £4.422m (£5.114m 2013/14).

The Council's actual reduction in combined Revenue Support Grant / assessed Business Rates baseline funding need is 13.5% for 2014/15 (which means that Government support will decrease by £0.69m over last year) with a further Reduction of 15.5% (£0.69m) in 2015/16.

Summary of changes to the 2014/15 settlement

The government published the illustrative 2014/15 settlement on 4 February 2013. Since then, two changes have affected the overall quantum of funding:

- An announcement in the 2013 Budget that further reductions would be made to the local government spending control total. This resulted in a reduction of Revenue Support Grant of £218m (1.73%).
- Offsetting this, the Retail Price Index (RPI), used to calculate the local share of aggregate business rates in 2014/15, was projected to be higher than at the time of the illustrative settlement. Including business rates, the overall reduction in funding (relative to the illustrative settlement) was projected to reduce to £198m (0.83%).

Summary of changes to the 2015/16 settlement

The 2013 Spending Round set out reductions in Local Government Departmental Expenditure Limits (DEL) of 2.3% in 2015/16. This translates to an annual reduction in Revenue Support Grant of £3.2 billion (24.2%). As business rates were projected to increase by 2.8%, this gives an overall reduction in funding of £2.9 billion (11.9%). These figures include the funding set aside to fund the New Homes Bonus.

Business Rates

Additional monthly monitoring has been implemented in 2013/14 following business rate retention – following approval of the NNDR1 form (Business Rates estimates) by Cabinet in January 2013.

The latest estimate indicates additional business rates receivable above the baseline in 2013/14 and future years – of which the Council will receive 40% less the tariff payment and 50% LEP levy on the surplus. This is mainly due to the additional rates income generated from the warehouse site at Bitterscote, however the future position for 2014/15 is less certain. A robust check & challenge approach has been taken of any increases on the base figure, including a risk assessed collection level.

This is the second local government finance settlement following the new arrangements for business rates retention that came into place on 1st April 2013. This means that business rates have now been split into a central and a local share; each being 50% of the Expected Business Rates Aggregate in 2014/15 (as predicted by the Office for Budget Responsibility); after deductions are made for expected appeals and reliefs.

New burdens (Section 31) grant is receivable for additional reliefs given by the Government relating to business rates from 1st April 2014 e.g. Small Business Rate Relief – of which 50% of any in excess of the baseline will be payable in levy to the LEP. A prudent approach has been taken in respect of any new burdens funding – and, due to uncertainties & risk, the creation of an associated Business Rates Collection reserve to mitigate fluctuation in income.

The Council's actual reduction in combined Revenue Support Grant / Government assessed Business Rates baseline (based on past returns) funding need is 13.5% for 2014/15 (which means that Government support will decrease by £0.69m over last year) with a further Reduction of 15.5% (£0.69m) in 2015/16.

The operation of the floor (which damps the results so that no Council loses significantly) means that the Council will receive £15k in 2015/16 (Efficiency Support Grant - to keep the reduction within the announced maximum spending power decrease for a Council of 6.9%), 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 of 6.3% for 2016/17, remaining at broadly the same level from 2017/18. It is expected that should grant levels deteriorate further than anticipated, this would be mitigated as New Homes Bonus funding has been included on a risk based approach.

Based on this Government financial support will reduce over the period as shown in the table below.

External Finance	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Business Rates Baseline	2,083	2,140	2,183
Revenue Support Grant	2,339	1,596	1,316
Total Funding Assessment	**4,422**	**3,736**	**3,499**
% Change Increase/(Decrease)	**(13.5)%**	**(15.5)%**	**(6.3)%**

Using local Business Rate forecasts the retained income due to the Council is shown the table below:

External Finance	2014/15 £'000	2015/16 £'000	2016/17 £'000
Retained Business Rates*	2,372	2,128	2,232
Revenue Support Grant	2,340	1,596	1,316
Total Funding Assessment	**4,712**	**3,724**	**3,548**
% Change Increase/(Decrease) (excluding levy impact)	**(10.2)%**	**(18.9)%**	**(4.7)%**

The retained Business Rates forecast are based on the NNDR1 return in January 2014. For 2014/15, a levy payment of £145k is estimated (included as a policy change) which will reduce the net business rates retained. No impact has been assumed in future years due to uncertainty (net figure included).

Technical Adjustments

Revisions have been made to the 2013/14 base budget in order to produce an adjusted base for 2014/15 and forecast base for 2015/16 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;
- a 'Zero base budgeting' review of income levels.

They are summarised in **Appendix F1** 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	**2014/15**	**2015/16**	**2016/17**
	£'000	**£'000**	**£'000**
Base Budget B/Fwd	8,961	9,250	9,138
Committee Decisions	(146)	(165)	(136)
Inflation	35	37	44
Other (as detailed in the Base Budget report)	136	(75)	(110)
Pay Adjustments (Including pay award / reduction of 5% for vacancy allowance)	238	91	588
Revised charges for non-general fund activities	26	-	-
Total / Revised Base Budget	9,250	9,138	9,524

* ( ) denotes saving in base budget

Policy Changes

The policy changes provisionally agreed by Council in February 2013 have been included within the technical adjustments. **A list of the revised policy changes is attached at Appendix C and summarised below:**

DIRECTORATE	Sheet No.	Budget Changes 14/15 £'000	Budget Changes 15/16 £'000	Budget Changes 16/17 £'000
Chief Executive	**1**	(7.91)	(3.00)	(3.24)
Executive Director Corporate Services	**2**	(114.64)	59.68	(35.02)
Director of Finance	**3**	519.12	(190.04)	(27.73)
Director of Technology & Corporate Programmes	**4**	(26.02)	(8.68)	(9.13)
Solicitor to the Council	**5**	(26.62)	(4.31)	(4.71)
Director of Transformation & Corporate Performance	**6**	(62.35)	(66.51)	(67.71)
Director of Communities, Planning & Partnerships	**7**	(97.06)	(21.71)	(28.49)
Director of Housing & Health	**8**	(13.17)	(33.78)	(4.04)
Director of Assets & Environment	**9**	(292.57)	(514.27)	(89.93)
Total		**(121.22)**	**(782.62)**	**(270.00)**
Cumulative Cost / (Saving)		**(121.22)**	**(903.84)**	**(1,173.84)**

Capping / Local Referendum

In the past, the Government had the power under the Local Government Act 1999 to require councils to set a lower budget requirement if it considered the budget requirement and council tax had gone up by too much. The Localism Act 2011 abolished the capping regime but introduced new requirements on a Council to hold a local referendum if it increases its council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons.

The proposed principles for 2014/15 are that authorities will be required to seek the approval of their local electorate in a referendum if, compared with 2013/14, they set council tax increases at or exceeding 2.0%.

For 2011/12 the Government indicated that it would offer grant support for the 4 year Comprehensive Spending Review (CSR) period should Council freeze Council Tax levels. A similar arrangement, with funding for one year only was made for 2012/13. A similar offer was announced for 2013/14 where Government grant support equivalent to 2% of a Council Tax increase would be payable over a 2 year period (i.e. 1% p.a.). A similar scheme will operate for 2014/15 should the Council freeze the council tax level – with indications that a grant equivalent to a 1% Council Tax increase would be payable for 2014/15 and 2015/16 – and built into baseline funding thereafter.

Should Council Tax be frozen at the 2013/14 level for 2014/15 then this would reduce income by c.£62k p.a. – £186k over the 3 year period. This would be offset by grant income receivable of c. £36k p.a

Consideration of the likely level of Council Tax increases over the 3 year period is needed to avoid the potential costs of holding a referendum and to ensure that balances are maintained at the minimum approved level of £500k. The indications are that a potential threshold will be 2.0% in future years (subject to confirmation by Ministers) - the impact of a 1.99% p.a. increase (with a 1.97% increase in 2014/15) is outlined below.

Council Tax

Last year's medium term financial plan identified ongoing increases of 2.5% per annum from 2014/15.

The Council's provision for collection losses for 2014/15 has been approved at 2.1% (the same level as 2013/14). 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 £31k per annum. Each £1 increase in the Band D Council Tax would raise approximately £20k per annum. ***A Council Tax increase in 2014/15 of £3.00 (1.97%) is proposed (with a minimum increase in line with inflation of 1.99% per annum thereafter).***

The Band D Council Tax would increase to £155.50 for 2014/15 (£152.50 2013/14). Future levels of Council Tax and the projected impact on the General Fund revenue account forecast would be as follows:

Year:	**2014/15**	**2015/16**	**2016/17**
Forecast:	**£000's**	**£000's**	**£000's**
Net Expenditure	9,133	8,237	8,346
Surplus / (Deficit)	(1,197)	(1,263)	(1,468)
Balances Remaining /Overdrawn (-)	**3,231**	**1,968**	**500**
£ Increase (rounded)	3.00	3.09	3.16
% Increase	1.97%	1.99%	1.99%
Note: Resultant Band D Council Tax	155.50	158.59	161.75

which indicates potential balances of £0.5m (the minimum approved level) forecast as remaining over the 3 year period. As current capping guidance indicates a 'capping' threshold of 2.0%, 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 (or deficits) 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 Office of the Police and Crime Commissioner Staffordshire). it is estimated that there will be a surplus of £500k.

Council Tax	**2014/15** **£'000**	**2015/16** **£'000**	**2016/17** **£'000**
Council Tax Income	3,170	3,250	3,330
Collection Fund Surplus	54	-	-

The County Council, Office of the Police and Crime Commissioner Staffordshire and Fire & Rescue Authority are due to finalise their budgets for 2014/15 during February 2014.

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

Balances

At the Council meeting on 29th February 2000 Members approved a minimum working level of balances of £500k. At 31st March 2014 General Fund Revenue Balances are estimated to be £4.4m, compared with £4.2m anticipated a year ago.

The minimum level of balances for planning purposes will remain at £0.5m.

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 the impact of the changes to council tax support and other welfare reforms on council tax and rent income, future local authority pay settlements, the potential for interest rate changes, the future local government finance settlements and the level of future business rates income.

A summary of all the budget proposals is shown in the table below. The summary Revenue Budget for 2014/15, appears at **Appendix E**. A summary of the resulting budgets over the 3 year period appears at **Appendix G.**

Financial Summary	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Base Budget	9,250	9,138	9,524
Proposed Policy Changes	(121)	(904)	(1,174)
Final Recharge & Inflationary Adjustments (following Policy Changes inclusion)	4	3	(4)
Net Expenditure	**9,133**	**8,237**	**8,346**
Financing:			
Business Rates Baseline	2,372	2,128	2,232
Revenue Support Grant	2,340	1,596	1,316
Council Tax Income	3,170	3,250	3,330
Collection Fund Surplus	54	-	-
Gross Financing	**7,936**	**6,974**	**6,878**
(Surplus) / Deficit	**1,197**	**1,263**	**1,468**
Balances Remaining / (Overdrawn)	3,231	1,968	500

HOUSING REVENUE ACCOUNT

Technical Adjustments

The 2013/14 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 2014/15.

The following table illustrates the current position before the effect of policy led changes:

Technical Adjustments	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Base Budget	599	972	2,928	1,161	1,012
Committee Decisions	(10)	1,533	(2,212)	100	-
Inflation	137	133	137	141	145
Other	183	212	138	(454)	(391)
Pay Adjustments (Including pay award / reduction of 5% for vacancy allowance)	99	78	170	64	63
Revised charges for non-HRA activities	(36)	-	-	-	-
Total	972	2,928	1,161	1,012	829

Revisions have been made to the 2013/14 base budget in order to produce an adjusted base for 2014/15 and forecast base for 2015/16 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 F2**.

Proposals

The proposed policy changes for inclusion in the base budget for the next 5 years are detailed at **Appendix C**.

The proposals will mean that balances will remain above the approved minimum level of £0.5m (as recommended) over the 5 year period.

Financial Summary	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Net Surplus / (Deficit)	**(972)**	**(2,928)**	**(1,161)**	**(1,012)**	**(829)**
Policy Changes	(23)	(3)	1,019	1,021	1,023
Final Recharge & Inflationary Adjustments (following Policy Changes inclusion)	10	11	12	12	13
Surplus / (Deficit)	(985)	(2,920)	(130)	21	207
Balances Remaining / (Overdrawn)	4,314	1,394	1,265	1,285	1,492

Indicating a Housing Revenue Account (HRA) balances of £1.5m over the next 5 years. (Minimum recommended balances are currently £0.5m).

However this includes contributions to capital spend of £6.7m over 3 years (£9.5m over the next 5 years) and the regeneration reserve - £5.7m over 3 years (£9.3m over 5 years).

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

- finalisation of the costs / income associated with the potential regeneration / redevelopment proposals – updated estimates have been included within the capital programme but final costs will be dependent on the results of the procurement process. Due to the uncertainty, the revenue implications of the regeneration schemes has not been included within the HRA forecast;

- future impact of the Government's increased discounts to promote right to buy sales on housing stock numbers and associated income levels – 50 sales p.a. have been assumed in future years.

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 for 2014/15. However, from 2015/16 an increase in line with CPI plus 1% has been assumed following receipt of Government Consultation proposals.

Balances

The forecast level of balances at 31st March 2014 is £5.3m. The impact on balances of the adjustments outlined in this report would be as follows:

Summary	**2014/15 £’000**	**2015/16 £’000**	**2016/17 £’000**	**2017/18 £’000**	**2018/19 £’000**
Proposed (Withdrawal from) / Addition to Balances	(985)	(2,920)	(130)	21	207
Balances Remaining / (Overdrawn)	4,314	1,394	1,265	1,285	1,492

This would mean that closing balances, over the 5 year period, would be over the approved minimum level of £0.5m.

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

CAPITAL PROGRAMME

Following a review of the Capital Programme approved by Council on 26th February 2013, a revised 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 £4m (excluding the £0.5m approved minimum balance) will be available during the period to 2016/17 for future capital spending (including the usable capital receipts generated from the sale of council housing). Details of the proposed capital programme are shown in **Appendix I.**

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 (the minimum approved level). The proposed programme includes a contribution from sale of council house receipts of £0.44m over the 3 years.

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.

Housing

The proposed 5 year Housing Capital Programme is attached at **Appendix J**. Revisions are included to reflect:

- major updates to planned works following receipt of the results of the stock condition survey;
- updated Regeneration Projects costs;
- Inclusion of c. £1.6m p.a. from 2015/16 for new build / redevelopment schemes garage sites and other acquisitions.

It is estimated that approximately £52.5m (excluding the £0.5m approved minimum balance) will be needed during the period to 2018/19 for future capital spending (including revenue contributions from the HRA of £11.5m, Regeneration reserve balances of £7.5m & additional borrowing of £7.2m – the 'headroom' in line with the HRA Government debt cap is £11.3m).

Appendix C

Policy Changes Summary

DIRECTORATE	**Sheet No.**	**Budget Changes 14/15 £'000**	**Budget Changes 15/16 £'000**	**Budget Changes 16/17 £'000**
Chief Executive	**1**	(7.91)	(3.00)	(3.24)
Executive Director Corporate Services	**2**	(114.64)	59.68	(35.02)
Director of Finance	**3**	519.12	(190.04)	(27.73)
Director of Technology & Corporate Programmes	**4**	(26.02)	(8.68)	(9.13)
Solicitor to the Council	**5**	(26.62)	(4.31)	(4.71)
Director of Transformation & Corporate Performance	**6**	(62.35)	(66.51)	(67.71)
Director of Communities, Planning & Partnerships	**7**	(97.06)	(21.71)	(28.49)
Director of Housing & Health	**8**	(13.17)	(33.78)	(4.04)
Director of Assets & Environment	**9**	(292.57)	(514.27)	(89.93)
Total		**(121.22)**	**(782.62)**	**(270.00)**
Cumulative Cost / (Saving)		**(121.22)**	**(903.84)**	**(1,173.84)**

	Sheet No.	**Budget Changes 14/15 £'000**	**Budget Changes 15/16 £'000**	**Budget Changes 16/17 £'000**	**Budget Changes 17/18 £'000**	**Budget Changes 18/19 £'000**
Housing Revenue Account	**10**	22.80	(20.00)	(1,022.00)	(2.00)	(2.00)
Total		**22.80**	**(20.00)**	**(1,022.00)**	**(2.00)**	**(2.00)**
Cumulative Cost / (Saving)		22.80	2.80	(1,019.20)	(1,021.20)	(1,023.20)

Policy Changes Summary Staffing Implications

DIRECTORATE	Sheet No.	Budget Changes 14/15 £'000	Budget Changes 15/16 £'000	Budget Changes 16/17 £'000
Chief Executive	1	-	-	-
Executive Director Corporate Services	2	-	-	-
Director of Finance	3	-	-	-
Director of Technology & Corporate Programmes	4	-	-	-
Solicitor to the Council	5	-	-	-
Director of Transformation & Corporate Performance	6	-	-	-
Director of Communities, Planning & Partnerships	7	-	-	-
Director of Housing & Health	8	-	-	-
Director of Assets & Environment	9	-	-	-
TOTAL		**-**	**-**	**-**

	Sheet No.	Budget Changes 14/15 £'000	Budget Changes 15/16 £'000	Budget Changes 16/17 £'000	Budget Changes 17/18 £'000	Budget Changes 18/19 £'000
Housing Revenue Account	10	-	-	-	-	-
TOTAL		**-**	**-**	**-**	**-**	**-**

14/15 Budget Process - Policy Changes

Sheet 1

CHIEF EXECUTIVE

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
CE1	SAV	Agile		Savings in Travel Claims/Mileage	(0.07)		
CE2	SAV		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(7.84)	(3.00)	(3.24)
			Total New Items / Amendments		**(7.91)**	**(3.00)**	**(3.24)**

STAFFING IMPLICATIONS

Item No		BC Ref	Proposal/(Existing Budget)	Implications	14/15 FTE	15/16 FTE	16/17 FTE
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes **Sheet 2**

EXECUTIVE DIRECTOR CORPORATE SERVICES

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
ED1	SAV	Service Review	Internal Audit - Potential savings arising from Service Review options	Options to be identified for consideration by CMT / Cabinet			(20.00)
ED2	SAV		New Burdens - Local Council Tax Scheme Grant	Inclusion of grant funding for LCTS implementation	(73.71)	73.71	
ED3		Corporate Change	Legal Services Review	Savings anticipated from revised working practices	(1.05)		
ED4	SAV	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Savings in Public Liability Insurance budgets	(0.61)		
	SAV	Agile		Savings in Equipment, Furniture & Materials	(1.27)		
	SAV	Agile		Savings in Printing & Stationery	(0.20)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.23)		
ED5	SAV		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(37.57)	(14.03)	(15.02)
			Total New Items / Amendments		**(114.64)**	**59.68**	**(35.02)**

STAFFING IMPLICATIONS

					14/15 FTE	15/16 FTE	16/17 FTE
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes						**Sheet**	**3**
DIRECTOR OF FINANCE							
Item No		**BC Ref**	**Proposal/(Existing Budget)**	**Implications**	**Budget Change**	**Budget Change**	**Budget Change**
					14/15 £'000	**15/16 £'000**	**16/17 £'000**
DF 1	SAV		Additional New Homes Bonus	Additional income expected after confirmation that scheme will not change (following Consultation on proposed changes in 2013)	(25.00)		(30.00)
DF2	OTHER		Corporate Finance - General Contingency	Contingency budget to allow for 'in year' decisions to be made by Cabinet & to provide for any potential further reductions in income as a result of the economic situation.	100.00	(100.00)	
DF3	SAV		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(41.35)	(15.57)	(16.61)
				Lump Sum element	313.99	70.61	76.88
DF4	SAV		Business Rates - inclusion of new burdens grant funding (subject to 50% levy reduction & 50% prudency assumption)	Business Rates new burdens funding for Government scheme to reduce rates charges for small and medium sized businesses	(150.00)		
	OTHER		Contribution to new Business Rates Collection Reserve	Provision of reserve funding to mitigate impact of any changes in business rate income levels	150.00		
DF5	STAT		Provisional Levy Payment based on NNDR1	Estimated levy payment for 2014/15 - based on indications received from DCLG (30 Jan 2014); Assumed zero for future years due to uncertainty	145.08	(145.08)	
DF6	VFM	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Contribution to Capital - to fund 6th floor refurbishment	58.00	(58.00)	
	VFM	Agile		Contribution to GF Capital - to fund 8th floor refurbishment		58.00	(58.00)
	SAV	Agile		Savings in Public Liability Insurance budgets	(1.12)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.25)		
DF7	SAV	P&C	Procurement & Commissioning (P&C)	Savings arising from Collaborative Procurement	(28.00)		
DF8		Corporate Change	Legal Services Review	Savings anticipated from revised working practices	(2.23)		
			Total New Items / Amendments		**519.12**	**(190.04)**	**(27.73)**

14/15 Budget Process - Policy Changes

Sheet 4

DIRECTOR TECHNOLOGY & CORPORATE PROGRAMMES

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
TC1	SAV	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Savings in Public Liability Insurance budgets	(0.51)		
	SAV	Agile		Savings in Equipment, Furniture & Materials	(2.06)		
	SAV	Agile		Savings in Printing & Stationery	(0.73)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.03)		
TC2	SAV		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(22.69)	(8.68)	(9.13)
			Total New Items / Amendments		**(26.02)**	**(8.68)**	**(9.13)**

STAFFING IMPLICATIONS

					14/15 FTE	15/16 FTE	16/17 FTE
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes

Sheet 5

SOLICITOR TO THE COUNCIL

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
SOL1	**SAV**	Corporate Change	Legal Services Review	Savings anticipated from revised working practices	(11.94)		
SOL2	**SAV**	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Savings in Public Liability Insurance budgets	(0.24)		
	SAV	Agile		Savings in Equipment, Furniture & Materials	(1.73)		
	SAV	Agile		Savings in Printing & Stationery	(1.61)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.07)		
SOL3	**SAV**		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(11.03)	(4.31)	(4.71)
			Total New Items / Amendments		**(26.62)**	**(4.31)**	**(4.71)**

STAFFING IMPLICATIONS

Item No		BC Ref	Proposal/(Existing Budget)	Implications	14/15 FTE	15/16 FTE	16/17 FTE
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes

Sheet 6

DIRECTOR OF TRANSFORMATION & CORPORATE PERFORMANCE

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
TCP1	**SAV**	Agile	Savings in Telephony costs		(11.55)		
TCP2	**SAV**		Cease printing of Talkback document	Saving in printing costs (Publication will be on the website only in future)	(5.00)		
TCP3	**SAV**	Service Review	Service integration - Potential savings arising from Service Review options	Options to be identified for consideration by CMT / Cabinet		(50.00)	(50.00)
TCP4	**SAV**	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Savings in Public Liability Insurance budgets	(0.62)		
	SAV	Agile		Savings in Equipment, Furniture & Materials	(1.22)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.10)		
TCP5	**SAV**		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(43.86)	(16.51)	(17.71)
			Total New Items / Amendments		**(62.35)**	**(66.51)**	**(67.71)**

STAFFING IMPLICATIONS

					14/15 FTE	15/16 FTE	16/17 FTE
TCP3		Service Review	Service integration - Potential savings arising from Service Review options	Options to be identified for consideration by CMT / Cabinet		**TBA**	**TBA**
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes

Sheet 7

DIRECTOR COMMUNITIES, PLANNING & PARTNERSHIPS

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
CPP1	SAV	Corporate Change	Implement charging for pre-planning application advice	Additional income generated from new charge (as identified through Income Generation Project)	(5.00)		
CPP2		Corporate Change	Legal Services Review	Savings anticipated from revised working practices	(0.60)		
CPP3	SAV	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Savings in Public Liability Insurance budgets	(0.59)		
	SAV	Agile		Savings in Equipment, Furniture & Materials	(2.89)		
	SAV	Agile		Savings in Printing & Stationery	(1.46)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.66)		
CPP4	SAV		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(85.86)	(21.71)	(28.49)
			Total New Items / Amendments		**(97.06)**	**(21.71)**	**(28.49)**

STAFFING IMPLICATIONS

Item No		BC Ref	Proposal/(Existing Budget)	Implications	14/15 FTE	15/16 FTE	16/17 FTE
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes

Sheet 8

DIRECTOR HOUSING & HEALTH

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
HH1	STAT	Service Review	Potential savings arising from Service Review options	Options to be identified for consideration by CMT / Cabinet		(30.00)	
HH2		Corporate Change	Legal Services Review	Savings anticipated from revised working practices	(2.00)		
HH3	SAV	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Savings in Public Liability Insurance budgets	(0.17)		
	SAV	Agile		Savings in Equipment, Furniture & Materials	(0.60)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.18)		
HH4	SAV		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(10.22)	(3.78)	(4.04)
			Total New Items / Amendments		**(13.17)**	**(33.78)**	**(4.04)**

STAFFING IMPLICATIONS

Item No		BC Ref	Proposal/(Existing Budget)	Implications	14/15 FTE	15/16 FTE	16/17 FTE
HH1		Service Review	Potential savings arising from Service Review options	Options to be identified for consideration by CMT / Cabinet		**TBA**	
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes **Sheet 9**

DIRECTOR ASSETS & ENVIRONMENTAL SERVICES

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000
AE1	**SAV**	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Marmion House Rental Income budget - Increased income from rental	(14.05)	(74.75)	
	SAV	Agile		Increased income from service charges	(45.10)	(27.50)	
	SAV	Agile		Savings in electricity	(2.19)		
	SAV	Agile		Savings in Public Liability Insurance budgets	(0.14)		
	SAV	Agile		Savings in Equipment, Furniture & Materials	(2.23)		
	SAV	Agile		Savings in Travel Claims/Mileage	(0.11)		
AE2	**SAV**		Waste Management Contingency	Reduce current contingency budget (currently £75k)	(25.00)		
AE3	**SAV**		Waste Management Service Estimate	Revised Estimate prepared by Joint Waste Service	(32.00)		
AE4	**SAV**		Car Park income - revised payment to Boots	Revised Estimate prepared	(25.00)		
AE5	**SAV**		Waste Management	Revised organic waste disposal arrangements		(145.00)	(35.00)
AE7	**SAV**	Service Reviews	Potential savings arising from Service Review options	Options to be identified for consideration by CMT / Cabinet	(8.00)	(216.00)	
AE8		Corporate Change	Legal Services Review	Savings anticipated from revised working practices	(2.18)		
AE9	**SAV**		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(136.57)	(51.02)	(54.93)
			Total New Items / Amendments		**(292.57)**	**(514.27)**	**(89.93)**

STAFFING IMPLICATIONS

Item No		BC Ref	Proposal/(Existing Budget)	Implications	14/15 FTE	15/16 FTE	16/17 FTE
AE7		Service Reviews	Potential savings arising from Service Review options	Options to be identified for consideration by CMT / Cabinet	**TBA**	**TBA**	**TBA**
			TOTAL		-	-	-

14/15 Budget Process - Policy Changes Sheet 10

HOUSING REVENUE ACCOUNT

Item No		BC Ref	Proposal/(Existing Budget)	Implications	Budget Change 14/15 £'000	Budget Change 15/16 £'000	Budget Change 16/17 £'000	Budget Change 17/18 £'000	Budget Change 18/19 £'000
HRA1	SAV		Revenue Contribution to Capital Spend	Reduced contribution to capital spend following stock condition survey review			(1,000.00)		
HRA2	SAV	Agile	Agile Working Project - projected costs / income (as approved Cabinet, August 2013)	Savings in Public Liability Insurance budgets	(1.00)				
	SAV	Agile		Savings in Equipment, Furniture & Materials	(4.00)				
	SAV	Agile		Savings in Printing & Stationery	(2.00)				
	SAV	Agile		Savings in Travel Claims/Mileage	(1.20)				
HRA3	OTHER		Increase the subsidy of the Supported Housing service by £30,000 from 2014/15 onwards	To compensate for the loss of Supporting People grant (Cabinet Report approved 24/10/13)	30.00				
HRA4	OTHER		£10,000 from 2014/15 to meet residual sheltered housing staffing costs.	The Council currently holds a contract with SCC for SP funding to deliver the sheltered housing service. Contractually the landlord service is required to provide on site cover. Where staff absence arises this results in a need for temporary cover with budgets often either going overspent or the transfer of money between cost centres to offset this	10.00				
HRA5	OTHER		To increase the budget for tree works by £15,000 from 2014/15. The portfolio holder is keen to have a more proactive response to tree maintenance and this is being explored by street scene.	Currently trees assessed as Diseased, Dead or Dangerous are treated. This additional money will ensure all works can be undertaken and planned in more responsive way rather than reactive. This coupled with works linked to the environmental capital programme will achieve key objectives in the service plan	15.00				
HRA6	STAT		Revised Pension contribution from Triennial Review Negotiations	Saving in annual pension costs	(24.00)	(20.00)	(22.00)	(2.00)	(2.00)
			Total New Items / Amendments		**22.80**	**(20.00)**	**(1,022.00)**	**(2.00)**	**(2.00)**

STAFFING IMPLICATIONS

Item No		BC Ref	Proposal/(Existing Budget)	Implications	14/15 FTE	15/16 FTE	16/17 FTE	17/18 FTE	18/19 FTE
			TOTAL		-	-	-	-	-

Appendix D

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2014/15

	Base Budget 13/14	Technical Adjustments	Policy Changes	Revised Budget 14/15	Revised Budget 15/16	Revised Budget 16/17	Revised Budget 17/18	Revised Budget 18/19
	£	£	£	£	£	£	£	£
Income								
Dwelling Rents	(18,105,100)	(133,610)	-	(18,238,710)	(18,664,100)	(19,004,670)	(19,348,880)	(19,696,630)
Non-Dwelling Rents	(334,740)	(12,750)	-	(347,490)	(356,080)	(364,890)	(373,920)	(383,170)
Charges for Services and Facilities	(502,630)	(10,160)	78,400	(434,390)	(437,710)	(441,100)	(444,590)	(447,610)
Contributions Towards Expenditure	(841,420)	(38,710)	-	(880,130)	(880,390)	(880,650)	(880,920)	(881,200)
Subtotal	**(19,783,890)**	**(195,230)**	**78,400**	**(19,900,720)**	**(20,338,280)**	**(20,691,310)**	**(21,048,310)**	**(21,408,610)**
Expenditure								
Repairs and Maintenance	4,077,770	72,370	(10,450)	4,139,690	4,251,420	4,373,040	4,491,920	4,613,860
Supervision and Management	5,211,570	112,110	(40,400)	5,283,280	5,372,890	5,546,780	5,641,740	5,736,100
Rents, Rates, Taxes and Other Charges	32,930	610	(4,750)	28,790	29,170	29,550	29,940	30,340
Increase in Provision for Bad Debts	173,000	297,000	-	470,000	470,000	470,000	470,000	470,000
Housing Subsidy Payable	-	-	-	-	-	-	-	-
Depreciation and impairment of non-current assets	4,482,060	-	-	4,482,060	4,482,060	4,482,060	4,482,060	4,482,060
Debt Management Costs	15,770	10,050	-	25,820	27,280	27,410	26,820	26,900
Subtotal	**13,993,100**	**492,140**	**(55,600)**	**14,429,640**	**14,632,820**	**14,928,840**	**15,142,480**	**15,359,260**
Net cost of HRA Services per Authority I&E	**(5,790,790)**	**296,910**	**22,800**	**(5,471,080)**	**(5,705,460)**	**(5,762,470)**	**(5,905,830)**	**(6,049,350)**
Corporate and Democratic Core	3,720	880	-	4,600	4,720	4,840	4,970	5,100
HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	3,380	(460)	-	2,920	2,920	2,920	2,920	2,920
Net Cost of HRA Services	**(5,783,690)**	**297,330**	**22,800**	**(5,463,560)**	**(5,697,820)**	**(5,754,710)**	**(5,897,940)**	**(6,041,330)**
Interest Payable and Similar Charges	2,973,870	-	-	2,973,870	2,924,700	2,874,960	2,755,120	2,755,120
Amortisation of Premiums	-	-	-	-	-	-	-	-
Interest Receivable and Similar Income	(52,790)	(13,670)	-	(66,460)	(80,980)	(94,160)	(82,440)	(124,870)
Surplus/ Deficit for the year	**(2,862,610)**	**283,660**	**22,800**	**(2,556,150)**	**(2,854,100)**	**(2,973,910)**	**(3,225,260)**	**(3,411,080)**

Statement of Movement on the HRA Balance

	Base Budget 13/14	Technical Adjustments	Policy Changes	Revised Budget 14/15	Revised Budget 15/16	Revised Budget 16/17	Revised Budget 17/18	Revised Budget 18/19
Surplus or Deficit for the year	**(2,862,610)**	283,660	22,800	**(2,556,150)**	**(2,854,100)**	**(2,973,910)**	**(3,225,260)**	**(3,411,080)**
Additional Items required to be taken into account:								
Capital Expenditure funded by the HRA	3,461,230	79,160	-	3,540,390	5,774,240	3,104,330	3,204,330	3,204,330
Net transfer to/ (from) earmarked reserves	-	-	-	-	-	-	-	-
Transfer to/ (from) the Major Repairs Reserve	-	-	-	-	-	-	-	-
(Increase)/ Decrease in HRA Balances	**598,620**	**362,820**	**22,800**	**984,240**	**2,920,140**	**130,420**	**(20,930)**	**(206,750)**

Appendix E

General Fund Summary Revenue Budget for 2014/15

Figures exclude internal recharges which have no bottom line impact.	**Base Budget 2013/14 £**	**Technical Adjustments £**	**Policy Changes £**	**Budget 2014/15 £**
Chief Executive	159,610	4,970	(7,910)	**156,670**
Executive Director Corporate Services	310,210	144,660	(114,640)	**340,230**
Director of Finance	(482,130)	42,900	519,120	**79,890**
Director of Technology & Corporate Programmes	860,800	59,820	(26,020)	**894,600**
Solicitor to the Council	575,860	5,350	(26,620)	**554,590**
Director of Transformation & Corporate Performance	1,001,320	480	(62,350)	**939,450**
Director of Communities, Planning & Partnerships	2,411,680	22,400	(97,060)	**2,337,020**
Director of Housing & Health	1,035,460	10,900	(13,170)	**1,033,190**
Director of Assets & Environment	3,087,970	1,250	(292,570)	**2,796,650**
Total Cost of Services	**8,960,780**	**292,730**	**(121,220)**	**9,132,290**
Transfer (to) / from Balances	756,300	439,354	-	1,195,653
Revenue Support Grant	3,070,744	(730,946)	-	2,339,798
Retained Business Rates	12,199,200	527,808	-	12,727,008
Less: Tariff payable	(10,156,318)	(197,850)	-	(10,354,168)
Collection Fund Surplus	10,505	43,004	-	53,509
Council Tax Requirement	3,080,349	211,361	(121,220)	3,170,490

Appendix F1

General Fund Technical Adjustments 2014/15

Figures exclude internal recharges which have no bottom line impact.	**Budget 2013/14 £**	**Technical Adjustments** Virements £	Committee Decisions £	Inflation £	Other £	Pay Adjustments £	External Recharge Changes (non-GF Activities) £	Total Adjustments £	**Total Adjusted Base 2014/15 £**
Chief Executive	159,610	-	-	180	20	5,610	(1,870)	3,940	**163,550**
Executive Director Corporate Services	310,210	(4,640)	-	1,010	129,570	19,290	(1,760)	143,470	**453,680**
Director of Finance	(482,130)	45,600	(172,140)	2,190	149,090	26,840	(17,920)	33,660	**(448,470)**
Director of Technology & Corporate Programmes	860,800	(10,000)	-	12,590	39,330	14,480	(7,640)	48,760	**909,560**
Solicitor to the Council	575,860	-	-	4,540	(18,400)	12,580	4,820	3,540	**579,400**
Director of Transformation & Corporate Performance	1,001,320	48,420	-	3,130	(53,740)	24,290	27,550	49,650	**1,050,970**
Director of Communities, Planning & Partnerships	2,411,680	9,960	39,680	(4,640)	(75,530)	52,920	-	22,390	**2,434,070**
Director of Housing & Health	1,035,460	(500)	(13,970)	1,000	(13,840)	8,520	11,600	(7,190)	**1,028,270**
Director of Assets & Environment	3,087,970	(88,840)	-	15,200	(20,120)	73,240	11,250	(9,270)	**3,078,700**
Grand Total	**8,960,780**	**-**	**(146,430)**	**35,200**	**136,380**	**237,770**	**26,030**	**288,950**	**9,249,730**

HRA Technical Adjustments 2014/15

Figures exclude internal recharges which have no bottom line impact.	Budget 2013/14 £	Technical Adjustments Virements £	Committee Decisions £	Inflation £	Other £	Pay Adjustments £	External Recharge Changes (non-HRA Activities) £	Total Adjustments £	Total Adjusted Base 2014/15 £
Chief Executive's Office									
Director of Housing & Health	3,953,690	169,520	-	35,360	(12,100)	93,140	(33,860)	252,060	**4,205,750**
Director of Assets & Environment	(10,910)	-	-	200	120	5,530	(2,040)	3,810	**(7,100)**
HRA Summary	(3,344,160)	(169,520)	(10,240)	102,200	194,800	-	-	117,240	**(3,226,920)**
Grand Total	**598,620**	**-**	**(10,240)**	**137,760**	**182,820**	**98,670**	**(35,900)**	**373,110**	**971,730**

Appendix G

General Fund 3 Year Revenue Budget Summary

Figures exclude internal recharges which have no bottom line impact.	Base Budget 2013/14 £	Budget 2014/15 £	Budget 2015/16 £	Budget 2016/17 £
Chief Executive	159,610	156,670	159,670	169,150
Executive Director Corporate Services	310,210	340,230	418,640	433,860
Director of Finance	(482,130)	79,890	(221,290)	(394,750)
Director of Technology & Corporate Programmes	860,800	894,600	849,560	885,900
Solicitor to the Council	575,860	554,590	565,580	589,360
Director of Transformation & Corporate Performance	1,001,320	939,450	905,540	905,970
Director of Communities, Planning & Partnerships	2,411,680	2,337,020	2,281,190	2,287,990
Director of Housing & Health	1,035,460	1,033,190	854,130	865,060
Director of Assets & Environment	3,087,970	2,796,650	2,424,590	2,604,130
Total Cost of Services	**8,960,780**	**9,132,290**	**8,237,610**	**8,346,670**
Transfer (to) / from Balances	756,300	1,195,653	1,264,263	1,468,398
Revenue Support Grant	3,070,744	2,339,798	1,595,904	1,316,322
Retained Business Rates	12,199,200	12,727,008	12,767,840	13,084,431
Less: Tariff payable	(10,156,318)	(10,354,168)	(10,639,952)	(10,852,751)
Collection Fund Surplus	10,505	53,509	-	-
Council Tax Requirement	3,080,349	3,170,490	3,249,555	3,330,270

Appendix H

Council Tax levels at each band for 2014/15

	Tamworth Council Tax 2013/14	Tamworth Borough Council	Staffordshire County Council	* Office of the Police & Crime Commissioner (OPCC) Staffordshire	Stoke on Trent and Staffordshire Fire and Rescue Authority	**Total 2014/15**	Total Council Tax 2013/14
	£	£	£	£	£	**£**	£
Demand/Precept on Collection Fund		3,170,490	20,944,645	3,621,290	1,379,112	**29,115,537**	
Council Tax Band							
A	101.67	*103.67*	*684.83*	*118.41*	*45.09*	**952.00**	950.00
B	118.61	*120.94*	*798.97*	*138.14*	*52.61*	**1,110.66**	1,108.33
C	135.56	*138.22*	*913.11*	*157.88*	*60.12*	**1,269.33**	1,266.67
D	**152.50**	*155.50*	*1,027.25*	*177.61*	*67.64*	**1,428.00**	1,425.00
E	186.39	*190.06*	*1,255.53*	*217.08*	*82.67*	**1,745.34**	1,741.67
F	220.28	*224.61*	*1,483.81*	*256.55*	*97.70*	**2,062.67**	2,058.34
G	254.17	*259.17*	*1,712.08*	*296.02*	*112.73*	**2,380.00**	2,375.00
H	305.00	*311.00*	*2,054.50*	*355.22*	*135.28*	**2,856.00**	2,850.00

** Assuming no increase in Council Tax levels. At the time of printing precept information for the OPCC is still awaited.*

Appendix I

Proposed General Fund Capital Programme 2014/15 – 2016/17

General Fund Capital Programme	2014/15 £	2015/16 £	2016/17 £	Total £
Technology Replacement	-	-	70,000	**70,000**
Agile Working - Floor Refurbishment	78,000	80,000	-	**158,000**
Agile Working - Furniture	-	48,000	-	**48,000**
EDRMS implementation	50,000	-	-	**50,000**
Subtotal	**128,000**	**128,000**	**70,000**	**326,000**
Private Sector Grants - Disabled Facilities Grants	350,000	300,000	250,000	**900,000**
CCTV Camera Renewals	15,000	15,000	15,000	**45,000**
Assembly rooms development	2,388,500	100,000	-	**2,488,500**
Gateways	50,000	50,000	50,000	**150,000**
Contingency	50,000	-	-	**50,000**
Subtotal	**2,853,500**	**465,000**	**315,000**	**3,633,500**
Total General Fund Capital	**2,981,500**	**593,000**	**385,000**	**3,959,500**
Proposed Financing:				
Grants - Disabled Facilities	179,960	224,000	224,000	**627,960**
Grants - Assembly Rooms	2,050,000	-	-	**2,050,000**
Grants - SCC (Assembly Rooms)	80,000	-	-	**80,000**
Public Contributions (Assembly Rooms)	8,500	-	-	**8,500**
General Fund Capital Receipts	-	100,000	156,900	**132,250**
Sale of Council House Receipts	305,040	130,000	4,100	**439,140**
General Fund Capital Reserve	300,000	81,000	-	**381,000**
Revenue Contribution to Capital Outlay in Year	58,000	58,000	-	**116,000**
Total	**2,981,500**	**593,000**	**385,000**	**3,959,500**

Appendix J

Proposed Housing Capital Programme 2014/15 – 2018/19

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £	TOTAL £
Housing Revenue Account Capital Programme						
Bathroom Renewals	851,350	870,750	889,890	909,420	929,140	**4,450,550**
Disabled Facilities Adaptations	204,760	209,430	214,040	218,740	223,560	**1,070,530**
Gas Central Heating Upgrades and Renewals	545,130	557,560	569,830	582,360	595,170	**2,850,050**
Kitchen Renewals	1,019,060	1,042,290	1,065,240	1,088,720	1,112,960	**5,328,270**
Roofing - High Rise	43,000	43,980	-	-	-	**86,980**
High Rise Lift Renewal	327,620	335,090	342,460	349,990	-	**1,355,160**
Major Roofing Overhaul and Renewals	146,830	150,180	153,490	156,860	160,310	**767,670**
Fencing/Boundary Walls	30,000	30,000	30,000	30,000	30,000	**150,000**
Fire Upgrades to Flats	552,850	565,460	-	-	-	**1,118,310**
Structural Works	100,000	100,000	100,000	100,000	100,000	**500,000**
High Rise Balconies	60,000	60,000	60,000	60,000	60,000	**300,000**
General Estate Works	255,950	261,790	267,540	273,430	279,450	**1,338,160**
Window and Door Renewals	285,790	292,310	298,740	305,310	312,030	**1,494,180**
Gas Heating at Belgrave	278,470	284,820	-	-	-	**563,290**
Electric Heating removal at Belgrave	40,950	-	-	-	-	**40,950**
Carbon Monoxide Detectors	102,380	-	-	-	-	**102,380**
Agile Working	51,190	-	-	-	-	**51,190**
Contingency	100,000	100,000	100,000	100,000	100,000	**500,000**
Capital Salaries	161,980	165,670	169,310	173,040	176,840	**846,840**
CDM Fees	9,730	9,950	10,170	10,390	10,620	**50,860**
Regeneration Schemes:						
Kerria	500,000	2,930,000	3,845,000	-	-	**7,275,000**
Tinkers Green	-	4,890,000	5,239,000	5,339,000	-	**15,468,000**
Redevelopment of Garage sites and other acquisitions	336,000	1,605,000	1,605,000	1,605,000	1,605,000	**6,756,000**
Total HRA Capital	**6,003,040**	**14,504,280**	**14,959,710**	**11,302,260**	**5,695,080**	**52,464,370**
Proposed Financing:						
Capital Receipts from additional Council House Sales	-	1,000,000	1,000,000	1,000,000	-	**3,000,000**
Sale proceeds	-	-	649,000	649,000	-	**1,298,000**
Regeneration Revenue Reserves	336,000	3,312,000	2,000,000	1,840,000	-	**7,488,000**
Major Repairs Reserve	4,482,060	4,482,060	4,470,710	4,493,260	4,090,080	**22,018,170**
Revenue Contribution to Capital Outlay in Year (Renewals)	684,980	597,220	-	-	-	**1,282,200**
Revenue Contribution to Capital Outlay in Year (Regeneration)	500,000	2,871,000	1,868,000	3,320,000	1,605,000	**10,164,000**
Unsupported Borrowing	-	2,242,000	4,972,000	-	-	**7,214,000**
Total	**6,003,040**	**14,504,280**	**14,959,710**	**11,302,260**	**5,695,080**	**52,464,370**

Appendix K

Main Assumptions

Inflationary Factors	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Inflation Rate - Pay Awards	1.00%	1.00%	2.00%	2.00%	2.00%
National Insurance	7.20%	7.20%	10.60%	10.60%	10.60%
Superannuation	20.43%	21.45%	22.42%	22.42%	22.42%
Inflation Rate (RPI)	2.75%	2.60%	2.60%	2.60%	2.60%
Inflation Rate (CPI)	2.50%	2.00%	2.00%	2.00%	2.00%
Investment Rates	0.75%	1.25%	2.25%	2.75%	3.75%
Base Interest Rates	0.50%	0.75%	1.00%	1.75%	2.50%

1. Pay award – public sector pay will be capped for 2014/15 & 2015/16 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 estimates for rent allowance / rent rebate subsidy levels have been included;

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

6. Within the Comprehensive Spending review and subsequent Technical consultation released in July 2013, the Government proposed cuts of 15.4% to funding streams for 2015/16 – revised annual grant reductions have been included.

7. The Government has indicated its policy regarding council tax bills being frozen for the next year. It has indicated that a grant will be available to authorities that agree to freeze or reduce Council Tax in 2014/15;

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

9. Annualised year-on-year increases in pension costs of c. 1% (as above) for 3 years following SCC triennial review (including lump sum element increases).

10. Increases in rent levels are restricted by the Government guidelines & current indications that sales of council houses will be approximately 50 per annum.

Appendix L

Sensitivity Analysis (3 years)

	Risk	2014/15 £'000	2015/16 £'000	2016/17 £'000
		Potential Budgetary Effect		
Pay Award / National Insurance (GF)				
Impact +/- 0.5% Variance £'000	L	43	87	134
Budget Impact over 1 year	L	43		
Budget Impact over 3 years	L/M	264		
Pay Award / National Insurance (HRA)				
Impact +/- 0.5% Variance £'000	L	12	25	39
Budget Impact over 1 years	L	12		
Budget Impact over 3 years	L	76		
Budget Impact over 5 years	M	195		
Pension Costs				
Impact +/- 0.5% Variance £'000	L	0	0	0
Budget Impact over 1 year	L	0		
Budget Impact over 3 years	L	0		

3 year agreement in place - subject to stock market & membership changes

	Risk	2014/15 £'000	2015/16 £'000	2016/17 £'000
Council Tax				
Impact on Council Tax income £'000		16	32	50
Budget Impact over 1 year	L	16		
Budget Impact over 3 years	L	98		
Inflation / CPI				
Impact +/- 0.5% Variance £'000	L	39	79	119
Budget Impact over 1 year	L	39		
Budget Impact over 3 years	M	237		
Government Grant				
Impact +/- 1.0% Variance £'000	L	46	83	118
Budget Impact over 1 year	L	46		
Budget Impact over 3 years	M	247		
Investment Interest				
Impact +/- 0.5% Variance £'000	L	126	230	317
Budget Impact over 1 year	L	126		
Budget Impact over 3 years	H	673		

	Risk	2014/15 £'000	2015/16 £'000	2016/17 £'000
Key Income Streams (GF)				
Impact +/- 0.5% Variance £'000	L	26	52	78
Budget Impact over 1 year	L	26		
Budget Impact over 3 years	L/M	156		
Key Income Streams (HRA)				
Impact +/- 0.5% Variance £'000	L	91	185	280
Budget Impact over 1 years	L	91		
Budget Impact over 3 years	H	556		
Budget Impact over 5 years	H	1407		
New Homes Bonus				
Impact +/- 10% Variance £'000	L	52	114	184
Budget Impact over 1 year	L	52		
Budget Impact over 3 years	M	350		
Business Rates				
Impact +/- 10% Variance £'000	L	64	127	193
Budget Impact over 1 year	L	64		
Budget Impact over 3 years	M	384		

Appendix M

Contingencies

Contingencies 2014/15 - 2018/19

Revenue	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund					
Specific Contingencies					
Vacancy Allowance	50	50	50		
General Contingency	100	-	-		
Total General Fund Revenue	**150**	**50**	**50**		
Housing Revenue Account					
HRA - General Contingency	100	100	100	100	100
Total HRA Revenue	**100**	**100**	**100**	**100**	**100**
Capital					
General Fund					
General Capital Contingency	50	-	-		
Total General Fund Capital	**50**	**-**	**-**		
Housing Revenue Account					
HRA - General Capital Contingency	100	100	100	100	100
Total HRA Capital	**100**	**100**	**100**	**100**	**100**

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APPENDIX N

TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2014/15

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.

Executive Summary

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

This report outlines the Council's prudential indicators for 2014/15 – 2016/17 and sets out the expected Treasury operations for this period. This report and associated tables fulfil the statutory requirement of the Local Government Act 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;

- Adopting the Councils Treasury Management Policy Statement as recommended within the CIPFA Code of Practice 2011;

- 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 Council's risk appetite is low in order to give priority to **S**ecurity, **L**iquidity then **Y**ield (or return on investments).

Note: The UK has been downgraded by 2 rating agencies to AA+. The Sovereign / Creditworthiness has not been affected by the market. UK investment will remain the fundamental investment area subject to any further changes.

The main issues for Members to note are:

1. The CIPFA Code of Practice and associated Guidance Notes adopted by the Council in December 2012 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 Capita Asset Services (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 past Treasury Management Strategies, 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 Council 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 Capita Asset Services 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.

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 requirement 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.

A Glossary of terms utilised within the report can be found at **ANNEX 8**.

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 2011
	DCLG Guidance on Local Government Investments March 2010
	Annual Treasury Report 2012/13 Council, 10/09/13
	Mid-year Treasury Report 2013/14 Council, 17/12/13
	Budget & Medium Term Financial Strategy 2014/15
	Treasury Management Practices 2014/15 (Operational Detail)

1. Introduction

1.1 The Treasury Management Policy Statement

This Council defines its Treasury Management activities as:

- The management of the Council'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.
- This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- This organisation acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 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 that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee. This role is undertaken by the Audit and Governance Committee.

Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:

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

A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and report whether the treasury strategy is meeting the strategy or whether any policies require revision.

An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2014/15

The strategy for 2014/15 covers two main areas:

a) Capital Issues

- the capital plans and the prudential indicators (2.1, 2.2);
- the Minimum Revenue Provision (MRP) strategy (2.3).

b) Treasury Management Issues

- the current treasury position (2.4);
- treasury indicators which will limit the treasury risk and activities of the Council (3);
- prospects for interest rates (3.3);
- the borrowing strategy (3.4);
- policy on borrowing in advance of need (3.5);
- debt rescheduling (3.6);
- the investment strategy (4.1);
- creditworthiness policy (4.2); and
- policy on use of external service providers (4.7).

These elements cover the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was undertaken by Members in February and October 2010 and September 2011. Detailed Treasury Management training was put in place for February 2014 and further training will be arranged as required. The training needs of treasury management officers are regularly reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services as its external treasury management advisors.

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.

2. The Capital Prudential Indicators 2014/15 – 2016/17

The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist member's overview and confirm capital expenditure plans.

2.1 Capital Expenditure. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle:

Capital Expenditure	2012/13 Actual £m	2013/14 Probable Outturn* £m	2014/15 Estimate** £m	2015/16 Estimate £m	2016/17 Estimate £m
Non-HRA	1.622	1.766	2.982	0.593	0.385
HRA	3.365	8.517	6.003	14.504	14.960
Total	**4.987**	**10.283**	**8.985**	**15.097**	**15.345**

** Projected at Period 9*

*** excludes projected slippage from 2013/14*

The above financing need, excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Financing (GF / HRA)	2012/13 Actual £m	2013/14 Probable Outturn £m	2014/15 Estimate** £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital Receipts	0.602	0.605	0.305	1.230	1.810
Capital Grants	0.929	0.650	2.310	0.224	0.224
Capital Reserves	0.090	3.619	0.300	0.081	-
Revenue Reserves	3.366	5.409	4.819	7.794	6.471
Revenue	-	-	1.251	3.526	1.868
Net financing need for the year	**-**	**-**	**-**	**2.242**	**4.972**
Total	**4.987**	**10.283**	**8.985**	**15.097**	**15.345**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below:

CFR Projections	**2012/13 Actual £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Capital Financing Requirement					
CFR – Non Housing	1.525	1.227	1.162	0.503	0.440
CFR - Housing	68.054	68.044	68.034	70.266	75.229
Total CFR	**69.579**	**69.271**	**69.196**	**70.769**	**75.669**
Movement in CFR*	**(0.089)**	**(0.308)**	**(0.075)**	**1.573**	**4.900**

Movement in CFR represented by					
Net financing need for the year (above)	-	-	-	2.242	4.972
Less: MRP/VRP and other financing movements	(0.089)	(0.308)**	(0.075)	(0.669)**	(0.072)
Movement in CFR	**(0.089)**	**(0.308)**	**(0.075)**	**1.573**	**4.900**

* CFR 2011/12 £69.668m

**include capitalisation reversals associated with Icelandic deposits

2.3 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge, the Minimum Revenue Provision, although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement*:*

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

No revenue charge is currently required for the HRA. However under HRA reform the HRA is required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for five years from 2012/13.

2.4 Core Funds and expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Fund Balances/Reserves	21.100	21.488	18.781	13.416	13.380
Capital Receipts	1.695	1.492	0.887	0.657	0.496
Provisions	0.148	0.110	0.110	-	-
Other	0.048	-	-	-	-
Total core funds	**22.991**	**23.090**	**19.778**	**14.073**	**13.876**
Working Capital*	2.527	4.137	4.499	4.658	3.596
(Under)/Over Borrowing	(4.519)	(4.210)	(4.137)	(3.467)	(3.395)
Expected Investments	**20.999**	**23.017**	**20.140**	**15.264**	**14.077**

*Working capital balances shown are estimated year end; these may be higher mid year.

2.5 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream.

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

Fund	2012/13 Actual %	2013/14 Revised Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Non-HRA	(0.90)	0.80	(1.33)	4.96	(2.81)
HRA (inclusive of settlement)	14.37	34.91	34.97	34.16	33.44

The estimates of financing costs include current commitments and the proposals in this budget report.

2.7 Incremental impact of capital investment decisions on Council Tax.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

Incremental Impact on Council Tax	2012/13 Actual £:p	2013/14 Estimate £:p	2014/15 Estimate £:p	2015/16 Estimate £:p	2016/17 Estimate £:p
Band D	0.28	0.24	0.16	0.37	(0.34)

2.8 Estimates of the incremental impact of capital investment decisions on housing rent levels.

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

Incremental Impact	2012/13 Actual £:p	2013/14 Estimate £:p	2014/15 Estimate £:p	2015/16 Estimate £:p	2016/17 Estimate £:p
Weekly housing rent levels	0.06	0.03	(0.04)*	0.19	0.60

* Revised capital programme lower than originally planned.

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The Treasury Management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's Treasury Portfolio position at 31st March 2013, with forward projections are summarised below. The table shows the actual external debt (the Treasury Management Operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Treasury Portfolio	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
External Debt					
Debt at 1st April	65.060	65.060	65.060	65.060	67.302
Expected change in Debt	-	-	-	2.242	4.972
Actual gross debt at 31st March	**65.060**	**65.060**	**65.060**	**67.302**	**72.274**
The Capital Financing Requirement	**69.579**	**69.271**	**69.196**	**70.769**	**75.669**
Under / (over) borrowing	**4.519**	**4.211**	**4.136**	**3.467**	**3.395**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. A key indicator is that the Council needs to ensure that its total borrowing, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Executive Director Corporate Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2. Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary - This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational Boundary	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	72.268	72.268	74.510	79.482
Other long term liabilities	-	-	-	-
Total	**72.268**	**72.268**	**74.510**	**79.482**

The Authorised Limit for external borrowing - A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following Authorised Limit:

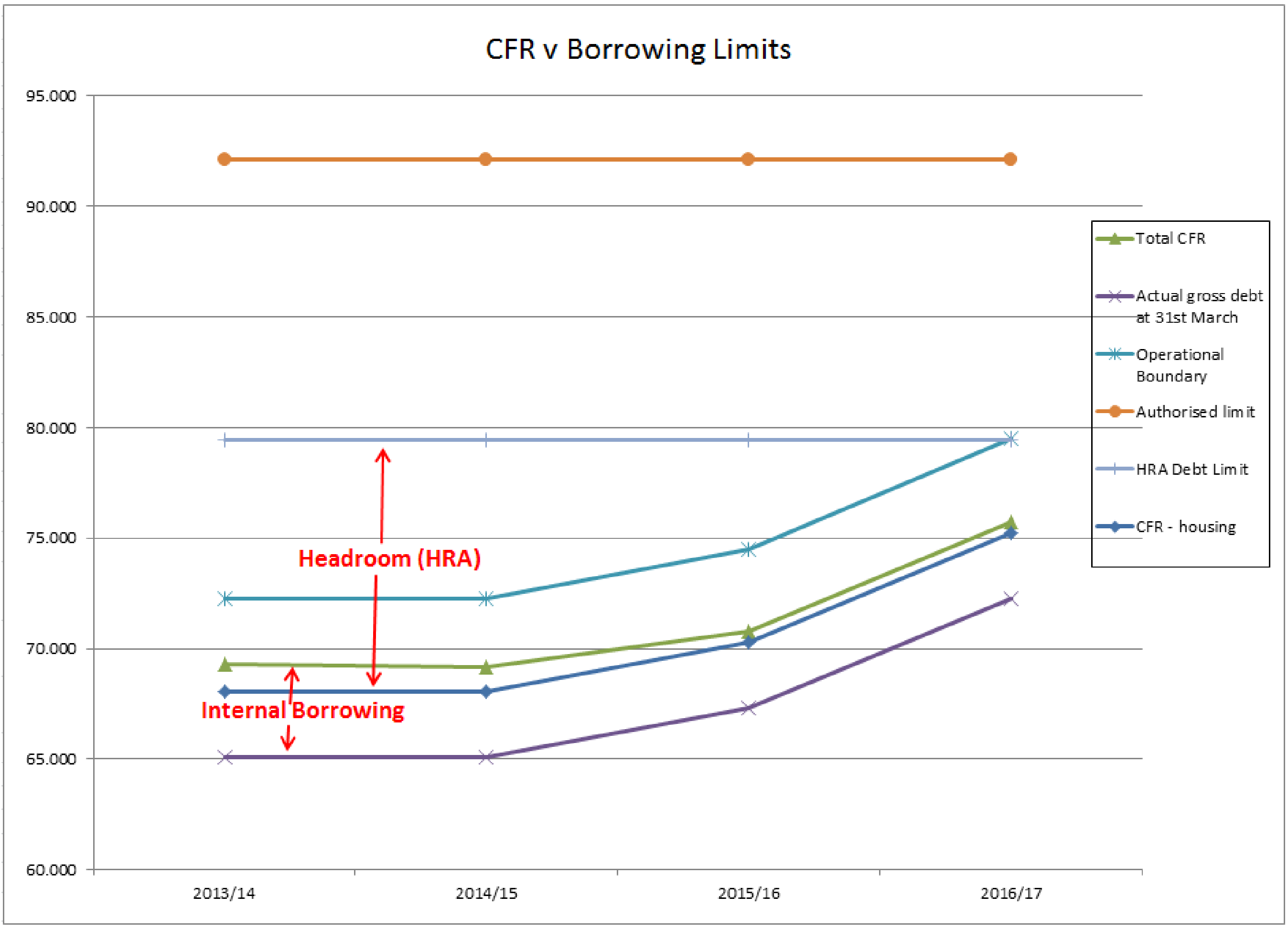
Authorised limit	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Borrowing*	89.112	89.112	89.112	89.112
Other long term liabilities	3.000	3.000	3.000	3.000
Total	**92.112**	**92.112**	**92.112**	**92.112**

** Includes £79.407m HRA Self Financing Cap – Including Headroom of £11.344m.*

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Total	79.407	79.407	79.407	79.407

This information summarised graphically below:



3.3. Prospects for Interest Rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **ANNEX 1** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita Asset Services central view.

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

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

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

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

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

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Executive Director Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was 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 was 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 the anticipated rate to US tapering of asset purchases, or 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 are still lower than they will be in the next few years.

While interest rates are at historic lows, consideration has to be given to taking debt before it is required due to the cost associated with holding the debt – i.e. debt costs would far outweigh investment returns in the short term.

Any decisions will be reported to Cabinet and full Council at the next available opportunity.

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.

The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Interest Rate Exposure	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**
Limit:	**Upper**	**Upper**	**Upper**
Limits on Fixed Interest Rates based on net debt	49.712	53.159	58.583
Limits on Variable Interest Rates based on net debt	6.506	6.618	6.978
Limits on Fixed Interest Rates:			
Debt only	65.060	66.181	69.781
Investments only	25.580	21.704	18.665
Limits on Variable Interest Rates:			
Debt only	6.506	6.618	6.978
Investments only	10.232	8.682	7.466

Maturity structure of Fixed Interest Rate borrowing 2014/15		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years and above	0%	100%

Maturity structure of Variable Interest Rate borrowing 2014/15		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years and above	0%	100%

3.5 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 within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6. Debt Rescheduling

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

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 treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

All rescheduling will be reported to Council, at the earliest meeting following its action.

4. Annual Investment Strategy

4.1 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

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

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in **Annex 3** under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

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

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

** this category is for AAA rated Government debt or its equivalent; please also see collateralised deposits added into ANNEX 3 as an investment instrument.*

The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of BB+, and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a daily basis/as and when notified. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services 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 Council's lending list.

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

4.3 Country Limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA or AA+ from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **ANNEX 4**. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

Capita Asset Services also recommends that no more than 20% of the Council's 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 Capita's recommendation (based on current average investment levels).

4.4 Investment Strategy

In-house funds. Investments will 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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2016. Bank Rate forecasts for financial year ends (March) are:

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

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

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

Year	Up to 100 Days %	All Investments %
2014/15	0.50	0.75
2015/16	0.50	1.25
2016/17	0.75	2.25
2017/18	2.25	2.75

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
Treasury Indicator	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
Principal sums invested > 364 days	2.0	2.0	2.0

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, Call accounts, 15, 30 and 95 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.5 Icelandic Bank Investments

Glitnir - £2.55m partial repayment of our deposits was received on the 15th March 2012. The balance due to the Council is currently being held in Icelandic Krone (ISK) but release of these funds is dependent on a change in Icelandic Law which currently does not allow the distribution of ISK outside the country. Interest will accrue on these funds untill the date of final settlement.

Heritable – In September 2013 the Council received what could be the final distribution from the Administrators. The total sum received is £1.415m against our claim of £1.505m, making a total recovery of 94.02%. The Administrators are witholding a sum as a contingency against disputed claims, which if rejected, could result in a further residual distribution.

Kaupthing Singer & Friedlander – At the end of November 2013, the Council had received £2.587m against our claim of £3.175m. Latest estimates given by the administrator project a total recovery of 85.25% or approximately £2.707m, with the final distribution estimated for June 2015.

4.6 End of year investment report

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

4.7 External Fund Managers

The Council uses Capita Asset Services as its external Treasury Management advisors.

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.

4.8 Scheme of delegation

Please see **ANNEX 5**.

4.9 Role of the Section 151 Officer

Please see **ANNEX 6.**

10. Annex

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ANNEX 1

Interest Rate Forecasts 2014 – 2017

Capita Asset Services Interest Rate View													
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
3 Month LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
6 Month LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
5yr PWLB Rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB Rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.60%	2.60%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.70%	3.80%	3.90%	4.05%	4.05%	4.30%	4.55%	4.55%	-	-	-	-	-
Capital Economics	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	4.05%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.55%	4.55%	4.80%	4.80%	5.05%	5.05%	5.30%	5.30%	-	-	-	-	-
Capital Economics	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.45%	4.45%	4.70%	4.70%	4.90%	4.90%	5.05%	5.05%	-	-	-	-	-
Capital Economics	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.60%	-	-	-	-	-

Please Note - The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Economic Background

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

Forward guidance. The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see below).

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

USA. The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its $85bn per month asset purchases programme of quantitative easing by $10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

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 of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.
- The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

Specified and Non-Specified Investments:

Specified Investments:

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

These would include investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or Gilts with less than one year to maturity). To facilitate use of such instruments a Custodian account was opened during 2012/13 with King & Shaxson Ltd (a primary participant authorised to bid at Treasury bill tenders on behalf of investors regulated by the Financial Services Authority (FSA) and subject to its rules and guidance in their activities);
- A Local Authority, Parish Council or Community Council;
- 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;
- 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;
- 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 the Council.
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 (1 Rating Agency) AA+ Sovereign Rating (2 Rating Agencies)	Custodian Account opened with King & Shaxson to trade on our behalf
3	**Certificates of Deposit** with credit rated deposit takers (Banks and Building Societies)	Capita Asset Services Minimum Credit Worthiness rating	Custodian Account opened with King & Shaxson to trade on our behalf

4	**Term deposit with a body which has been nationalised/part nationalised** by high credit rated (sovereign rating AAA or AA+) 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 or AA+ 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 or AA+ Sovereign Rated Capita Asset Services 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 Government's 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) making available new capital to UK banks and Building Societies to strengthen their resources c) ensuring the banking system has the funds necessary to maintain lending in the medium term.	In accordance with Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services 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 Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services 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 Capita Asset Services Credit Worthiness rating	Use restricted by Capita Asset Services 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 Sector's 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))	Capita '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))	Capita '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))	Capita 'Yellow'	3 yrs	£4m
Banks Nationalised/Part nationalised by high credit rated (sovereign rating AAA or AA+) countries *(a)*	Capita 'Blue' (UK)	Specified in Guarantee	£4m
An Eligible Institution eligible under the HM Treasury Credit Guarantee Scheme *(c)*	Capita 'Blue'	Specified in Guarantee	£4m
Government guarantee on ALL deposits by high credit rated (AAA sovereign rating) countries *(b).*	Capita 'Blue'	Specified in Guarantee	£4m
The Council's 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)	Capita '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)	Capita '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 Capita Asset Services 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.

ANNEX 4

Approved Countries for investments

Country	Agency		
	Fitch	Moody's	Standard & Poor
Australia	AAA	Aaa	AAA
Canada	AAA	Aaa	AAA
Denmark	AAA	Aaa	AAA
Finland	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
Hong Kong	AA+	Aa1	AAA
Luxembourg	AAA	Aaa	AAA
Netherlands	AAA	Aaa	AA+
Norway	AAA	Aaa	AAA
Singapore	AAA	Aaa	AAA
Sweden	AAA	Aaa	AAA
Switzerland	AAA	Aaa	AAA
USA	AAA	Aaa	AA+
UK*	AA+	Aa1	AAA

(Per Capita Asset Services Credit Rating List at 07thFebruary 2014)

* 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'

this approval continues to form part of the strategy in 2014/15.

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.

ANNEX 6

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.

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ANNEX 7

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 Council's Internet by following the following link;

http://www.tamworth.gov.uk/treasury-practices

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, Council 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.

<u>TMP2 : BEST VALUE AND PERFORMANCE MEASUREMENT</u>

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 TMP6 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 fulfil 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.

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 for 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 organisations 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)	Interest rates are set by the Bank's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met. Their primary target (as set by the Government) is to keep inflation at or around 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
Supranational Bonds	A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered very safe and have a high credit rating.
Treasury Management	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.
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.

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