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Executive Board Sub Committee

Thursday, 8 September 2011 10.00 a.m.
The Board Room - Municipal Building, Widnes

David W R

Chief Executive

ITEMS TO BE DEALT WITH
IN THE PRESENCE OF THE PRESS AND PUBLIC

PART 1

Item	Page No
1. MINUTES	
2. DECLARATION OF INTEREST Members are reminded of their responsibility to declare any personal or personal and prejudicial interest which they have in any item of business on the agenda no later than when that item is reached and, with personal and prejudicial interests (subject to certain exceptions in the Code of Conduct for Members), to leave the meeting prior to discussion and voting on the item.	
3. RESOURCES PORTFOLIO	
(A) SPENDING AS AT 30TH JUNE 2011	**1 - 21**
(B) ICT CAPITAL REVIEW	**22 - 31**

Please contact Gill Ferguson on 0151 471 7395 or e-mail gill.ferguson@halton.gov.uk for further information.
The next meeting of the Committee is on Thursday, 22 September 2011

Item	Page No
(C) TREASURY MANAGEMENT 2010/11	32 - 70
(D) TREASURY MANAGEMENT 2011/12: 1ST QUARTER: APRIL-JUNE	71 - 81
(E) DISCRETIONARY NON-DOMESTIC RATE RELIEF	82 - 87
4. HEALTH AND ADULTS PORTFOLIO AND NEIGHBOURHOOD, LEISURE AND SPORT PORTFOLIO	
(A) BOARDWALK EXTRA CARE HOUSING SCHEME	88 - 90

PART II

In this case the Board has a discretion to exclude the press and public and, in view of the nature of the business to be transacted, it is **RECOMMENDED** that under Section 100A(4) of the Local Government Act 1972, having been satisfied that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act.

Item	Page No
5. CHILDREN YOUNG PEOPLE AND FAMILIES PORTFOLIO	
(A) BSF UPDATE	91 - 96

In accordance with the Health and Safety at Work Act the Council is required to notify those attending meetings of the fire evacuation procedures. A copy has previously been circulated to Members and instructions are located in all rooms within the Civic block.

Agenda Item 3a

REPORT TO:	Executive Board Sub Committee
DATE:	8th September 2011
REPORTING OFFICER:	Operational Director Finance
SUBJECT:	Spending as at 30th June 2011
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To report the Council's overall revenue and capital spending position as at 30th June 2011.

2.0 RECOMMENDED: That

(i) the report be noted; and

(ii) a further report be made on the steps available to achieve a balanced budget at the end of the year

3.0 SUPPORTING INFORMATION

Revenue Spending

3.1 Appendix 1 presents a summary of spending against the revenue budget for each Department, up to 30th June 2011. The information provided within the Appendix has been provided in a more expanded format as discussed at the last meeting.

3.2 The Council's overall net spending is marginally below the budget profile at this stage. However the budget profile is only a guide to eventual spending and experience shows that spending can accelerate towards the end of the year.

3.3 A particular area of concern is spending on employees, which is currently £120,000 above the budget profile. There are a number of factors at play including the delay in negotiating new premium pay arrangements with the Unions.

3.4 A further factor is that staff turnover is much reduced and now lower than assumed in the budget. This will need to be incorporated in the Medium Term Financial Forecast.

3.5 Also at play is spending on agency staff, overtime, casual staff and consultancy costs. In previous years these types of discretionary expenditure have been part-funded from underspendings elsewhere within the employee budget. However, given the current lack of staff turnover, the funding for such expenditure is no longer available in many areas and is therefore causing additional budget pressures. Steps have been taken to control spending in these areas such as limiting casual pay to the basic evaluated grade.

3.6 Certain budget savings approved for 2011/12 are not yet being achieved. These include premium pay/overtime (£750,000) referred to above, street lighting on rural roads (£40,000) and running costs associated with asset disposals (£250,000).

3.7 The following budgets are spending above the profile and will need to be closely monitored throughout the remainder of the year

- The community care budget which continues to be under significant pressure due to increasing client numbers. Remedial action is being taken to bring expenditure back under control and in line with budget as soon as possible;

- Expenditure on children's in-house adoption and care leavers which is above budget profile due to higher numbers than anticipated, and;

- Insurance costs which are currently above budget profile due to a higher than expected volume of public liability claims paid during the quarter.

3.8 In addition, the economic downturn is affecting income. A number of income budgets are below their profile including market rents, industrial estates rents, commercial property rents, print unit fees, land charges, social care charges and licence fees. These budgets will need to be closely monitored during the year to ensure the overall budget is balanced.

3.9 Collection rates for both Council Tax and Business Rates are similar to last year despite the economic downturn and continue to be above the average for North West councils.

Capital Spending

3.10 The capital programme has been updated to incorporate slippage from 2010/11 in respect of the following schemes;

<u>Children & Enterprise:</u>
Children's' Centres £49,300
Education Programme £18,700
Castlefields Regeneration £2,106,000
The Hive £73,400
Property Purchases £39,700

<u>Policy & Resources:</u>
ICT Rolling Programme £23,500

Communities:
Children's Playgrounds and Equipment £164,300
Open Spaces £27,400
Runcorn Cemetery Extension £5,800
Installation of Multi Use Games Areas £106,900
Improvements to Allotments £5,900
Runcorn Town Hall Park £127,300
Disabled Facilities Grants £22,000
Joint Funding RSL Adaptations £32,400
Modular Buildings £27,000
Stair Lifts £4,800
Extra Care Housing £463,200
Choice Based Lettings £40,000
Re-design Oakmeadow Communal Spaces £28,400
User Led Adaptations £55,000
Out of Borough Placements £547,400

3.11 A summary of capital spending is shown in Appendix 2. Capital spending to 30th June 2011 totalled £7.5m, which is 75% of the planned spending of £9.9m at this stage. However, this only represents 12% of the total capital programme of £64.1m (which assumes a 20% slippage between years).

3.12 The main areas of programme slippage to date are in respect of Castlefields Regeneration and the Local Transport Plan schemes.

Balance Sheet

3.13 The Council's Balance Sheet is monitored regularly in accordance with the Reserves and Balances Strategy which forms part of the Medium Term Financial Strategy. The key reserves and balances have been reviewed and are considered prudent and appropriate at this stage in the financial year.

3.14 A significant number of equal pay claims have been lodged with the Council as part of the national single status agreement. A number of claims are in the process of being settled. The majority however, are being considered by our legal advisers and will result in a significant cost falling on the Council, although the timescales are as yet uncertain. A reserve has been established over recent years, which is now considered sufficient to meet the future cost of such claims.

4.0 POLICY AND OTHER IMPLICATIONS

4.1 None.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

6.0 RISK ANALYSIS

6.1 There are a number of financial risks within the budget. However, the Council has internal controls and processes in place to ensure that spending remains in line with budget.

6.2 In preparing the 2011/12 budget, a register of significant financial risks was prepared which has been updated as at 30th June 2011.

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 None.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

8.1 There are no background papers under the meaning of the Act.

APPENDIX 1

Summary of Revenue Spending to 30th June 2011

Directorate / Department	Annual Budget £'000	Budget To Date £'000	Actual Spend £'000	Variance To Date £'000
Children and Families Services	11,781	1,056	1,113	(57)
Children's Organisation and Provision	13,164	1,474	1,422	52
Learning and Achievement	3,469	1,471	1,431	40
Employment, Economic Regeneration & Business Development	3,163	2,060	2,100	(40)
Children and Enterprise	**31,577**	**6,061**	**6,066**	**(5)**
Human Resources	0	64	45	19
Policy, Planning & Transportation	18,348	3,276	3,130	146
Legal & Democratic Services	1,799	567	586	(19)
Finance	4,735	8,829	8,831	(2)
ICT & Support Services	139	-283	-298	15
Policy and Resources	**25,021**	**12,453**	**12,294**	**159**
Community & Environment	25,329	5,709	5,733	(24)
Prevention & Assessment	21,390	5,819	6,068	(249)
Commissioning & Complex Needs	17,495	4,093	4,091	2
Communities	**64,214**	**15,621**	**15,892**	**(271)**
Corporate & Democracy	**-10,325**	**486**	**226**	**260**
	110,487	**34,621**	**34,478**	**143**

APPENDIX 1 (continued)

Children & Enterprise Directorate – Revenue Spending to 30th June 2011

CHILDREN & FAMILIES SERVICES DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget to Date £'000	Expenditure to Date £'000	Variance to Date (Overspend) £'000
Expenditure				
Employees	7,152	1,812	1,823	(11)
Premises	83	68	69	(1)
Supplies & Services	3,216	300	302	(2)
Transport	39	5	3	2
Agency Related Expenditure	238	43	45	(2)
Residential Placements	1,732	438	441	(3)
Out of Borough Adoption	60	0	0	0
Out of Borough Fostering	514	128	105	23
In House Foster Carer Placements	1,611	375	371	4
In House Adoption	237	59	94	(35)
Care Leavers	316	79	118	(39)
Commissioned Services	500	100	97	3
Family Support	129	10	5	5
Total Expenditure	**15,827**	**3,417**	**3,473**	**(56)**
Income				
Early Intervention Grant	-8,226	-2,056	-2,056	0
Transfer from Reserves (11/12 Budget Savings)	-300	-300	-300	0
Fees & Charges	-12	-19	-19	0
Adoption Placements	0	-22	-22	0
Total Income	**-8,538**	**-2,397**	**-2,397**	**0**
Net Operational Expenditure	**7,289**	**1,020**	**1,076**	**-56**
Recharges				
Premises	306	1	1	0
Transport	123	31	32	(1)
Central Support Services	4,019	4	4	0
Asset Rentals	44	0	0	0
Total Recharges	**4,492**	**36**	**37**	**(1)**
Net Department Total	**11,781**	**1,056**	**1,113**	**(57)**

CHILDREN'S ORGANISATION & PROVISION DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	2,908	642	631	11
Premises	40	10	10	0
Supplies & Services	828	207	204	3
Transport	5	1	0	1
Commissioned Services – Youth Service	1,508	1	1	0
Commissioned Services - BSF	447	112	112	0
Commissioned Services – Other	812	148	140	8
Schools Transport	1,008	130	128	2
Agency Related	2	0	0	0
Connexions	1,323	251	251	0
Total Expenditure	**8,881**	**1,502**	**1,477**	**25**
Income				
Reimbursements and Other Income	-267	-7	-34	27
Dedicated Schools Grant	-92	-18	-18	0
Schools SLA	-687	-5	-5	0
Transfer from BSF	-696	0	0	0
Total Income	**-1,742**	**-30**	**-57**	**27**
Net Operational Expenditure	**7,139**	**1,472**	**1,420**	**52**
Recharges				
Premises Support	459	115	115	0
Transport Support	260	64	64	0
Central Support	1,340	292	292	0
Asset Charges	3,148	0	0	0
Net Total Recharges	**5,207**	**471**	**471**	**0**
Net Departmental Total	**12,346**	**1,943**	**1,891**	**52**

CHILDREN'S ORGANISATION & PROVISION DEPARTMENT (Schools Related)

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	577	147	147	0
Premises	431	7	7	0
School Redundancy	251	24	24	0
Schools Contingency	844	0	0	0
Schools Non Delegated Support	173	0	0	0
Special Educational Needs Contingency	1,129	0	0	0
Total Expenditure	**3,405**	**171**	**171**	**0**
Income				
Dedicated Schools Grant	-2,587	-640	-640	0
Total Income	**-2,587**	**-640**	**-640**	**0**
Net Operational Expenditure	**818**	**-469**	**-469**	**0**
Net Departmental Total	**818**	**-469**	**-469**	**0**

LEARNING & ACHIEVEMENT DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	5,456	1,196	1,159	37
Premises	59	3	3	0
Supplies & Services	1,839	365	357	8
Transport	13	3	4	-1
Agency Related Expenditure	2,311	788	788	0
Independent School Fees	1,523	483	483	0
Inter Authority Special Needs	779	-637	-637	0
Speech Therapy	110	27	32	-5
Total Expenditure	**12,090**	**2,228**	**2,187**	**39**
Income				
Inter Authority Income	-578	178	178	0
Dedicated Schools Grant	-7,407	-1,122	-1,122	0
Reimbursements	-1,424	-77	-78	1
Schools SLA's	-324	-15	-15	0
Total Income	**-9,732**	**-1036**	**-1037**	**1**
Net Operational Expenditure	**2,358**	**1,192**	**1,150**	**40**
Recharges				
Premises Support	297	74	74	0
Central Support Services	784	196	196	0
Transport Recharge Income	30	9	9	0
Net Total Recharges	**1,111**	**279**	**279**	**0**
Net Departmental Total	**3,469**	**1,471**	**1,431**	**40**

EMPLOYMENT, ECONOMIC REGENERATION & BUSINESS DEVELOPMENT DEPARTMENT
Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget to Date £'000	Expenditure to Date £'000	Variance to Date (Overspend) £'000
Expenditure				
Employees	4,563	1,298	1,314	(16)
Repairs & Maintenance	2,555	320	318	2
Energy & Water Costs	936	219	216	3
NNDR	918	918	918	0
Rents	1,061	495	492	3
Marketing Programme	11	3	2	1
Promotions	36	1	1	0
Development Projects	85	8	0	8
Supplies & Services	1,208	340	350	(10)
Agency Related Payments	193	46	51	(5)
Property Rationalisation Savings Target	-327	0	0	0
Total Expenditure	**11,239**	**3,648**	**3,662**	**(14)**
Income				
Rent – Markets	-806	-171	-158	(13)
Rent – Industrial	-952	-208	-200	(8)
Rent – Commercial	-560	-120	-116	(4)
Sales	-3	-1	-2	1
Fees & Charges	-336	-15	-12	(3)
Reimbursements	-440	0	0	0
Government Grant Income	-945	-109	-109	0
Recharges to Capital	-1,008	0	0	0
Schools SLA Income	-735	0	0	0
Transfer from Enterprise & Employment Reserve	-353	0	0	0
Total Income	**-6,138**	**-624**	**-597**	**(27)**
Net Operational Expenditure	**5,101**	**3,024**	**3,065**	**(41)**
Recharges				
Premises Support	1,522	273	273	0
Office Accommodation	153	38	38	0
Transport	57	14	14	0
Central Support	2,203	552	552	0
Asset Charges	2,307	0	0	0
Accommodation Recharge	-3,705	-911	-911	0
Support Service recharge	-1,876	-281	-281	0
Repairs & Maintenance	-2,599	-649	-650	1
Total Recharges	**1,938**	**-964**	**-965**	**1**
Net Department Total	**3,163**	**2,060**	**2,100**	**(40)**

Policy & Resources Directorate – Revenue Spending to 30th June 2011

HUMAN RESOURCES DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	1,922	591	590	1
Employee Training	520	33	32	1
Supplies & Services	68	17	21	(4)
Total Expenditure	**2,510**	**641**	**643**	**(2)**
Income				
Fees & Charges	-23	-23	-44	21
School SLA's	-269	0	0	0
Total Income	**-292**	**-23**	**-44**	**21**
Net Operational Expenditure	**2,218**	**618**	**599**	**19**
Recharges				
Premises Support	451	113	113	0
Transport Recharges	20	5	5	0
Central Support Recharges	539	135	135	0
Support Recharges Income	-3,228	-807	-807	0
Net Total Recharges	**-2,218**	**-554**	**-554**	**0**
Net Departmental Total	**0**	**64**	**45**	**19**

POLICY, PLANNING & TRANSPORTATION DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	6,198	1,707	1,663	44
Other Premises	278	121	121	0
Hired & Contracted Services	531	74	43	31
Supplies & Services	377	90	37	53
Street Lighting	1,733	380	397	(17)
Highways Maintenance	2,364	600	588	12
Bridges	89	17	4	13
Fleet Transport	1,338	313	321	(8)
Lease Car Contracts	786	500	500	0
Bus Support – Halton Hopper Tickets	163	27	26	1
Bus Support	703	81	81	0
Out of Borough Transport	51	9	7	2
Finance Charges	358	190	196	(6)
Grants to Voluntary Organisations	83	41	41	0
NRA Levy	60	15	15	0
Total Expenditure	**15,112**	**4,165**	**4,040**	**125**
Income				
Sales	-250	-70	-70	0
Planning Fees	-416	-83	-95	12
Building Control Fees	-182	-45	-38	(7)
Other Fees & Charges	-500	-107	-140	33
Rents	-14	-4	-3	(1)
Grants & Reimbursements	-504	-97	-80	(17)
School SLAs	-27	0	0	0
Recharge to Capital	-359	0	0	0
Total Income	**-2,252**	**-406**	**-426**	**20**
Net Operational Expenditure	**12,860**	**3,759**	**3,614**	**145**
Recharges				
Premises Support	810	140	136	4
Transport Recharges	477	110	99	11
Asset Charges	8,748	0	0	0
Central Support Recharges	2,606	651	652	(1)
Departmental Support Recharges	352	1	1	0
Support Recharges Income – Transport	-3,928	-908	-895	(13)
Support Recharges Income – Non Transport	-3,577	-477	-477	0
Net Total Recharges	**5,488**	**-483**	**-484**	**1**
Net Departmental Total	**18,348**	**3,276**	**3,130**	**146**

LEGAL & DEMOCRATIC SERVICES DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	2,095	561	588	(27)
Supplies & Services	422	158	142	16
Civic Catering & Functions	59	7	5	2
Legal Expenses	229	74	64	10
Total Expenditure	**2,805**	**800**	**799**	**1**
Income				
Land Charges	-130	-32	-23	(9)
School SLA's	-24	0	0	0
License Income	-315	-60	-42	(18)
Print Unit Fee Income	-303	-50	-29	(21)
Government Grant	0	0	-34	34
Other Income	-73	-18	-12	(6)
Transfers from Reserves	-22	-22	-22	0
Total Income	**-867**	**-182**	**-162**	**(20)**
Net Operational Expenditure	**1,938**	**618**	**637**	**(19)**
Recharges				
Premises Support	485	106	106	0
Transport Recharges	39	10	10	0
Asset Charges	2	0	0	0
Central Support Recharges	1,574	393	393	0
Support Recharges Income	-2,239	-560	-560	0
Net Total Recharges	**-139**	**-51**	**-51**	**0**
Net Departmental Total	**1,799**	**567**	**586**	**(19)**

FINANCE DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	7,530	1,887	1,863	24
Supplies & Services	310	130	124	6
Other Premises	122	41	37	4
Agency Related	1	0	0	0
Insurances	2,001	1,128	1,191	(63)
Charitable Relief	103	0	0	0
Concessionary Travel	2,236	373	373	0
Council Tax Benefits	11,194	11,144	11,139	5
Rent Allowances	47,590	11,593	11,591	2
Non HRA Rebates	101	12	12	0
Total Expenditure	**71,188**	**26,308**	**26,330**	**(22)**
Income				
Fees & Charges	-41	-10	-13	3
SLA to Schools	-1,126	-340	-340	0
NNDR Administration Grant	-169	0	0	0
Hsg Ben Administration Grant	-1,346	-336	-337	1
Rent Allowances	-46,992	-12,523	-12,527	4
Council Tax Benefits Grant	-11,060	-2,794	-2,798	4
Other Grants & Reimbursements	-799	-134	-142	8
Liability Orders	-345	-156	-157	1
Non HRA Rent Rebates	-101	-25	-23	(2)
Total Income	**-61,979**	**-16,318**	**-16,337**	**19**
Net Operational Expenditure	**9,209**	**9,990**	**9,993**	**(3)**
Recharges				
Premises	367	83	82	1
Transport	88	22	23	(1)
Asset Charges	469	83	83	0
Central Support Service	1,062	265	265	0
Support Service Income	-6,460	-1,614	-1,615	1
Net Total Recharges	**-4,474**	**-1,161**	**-1,162**	**1**
Net Department Total	**4,735**	**8,829**	**8,831**	**(2)**

ICT AND SUPPORT SERVICES DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget to Date £'000	Actual to Date £'000	Variance to Date (Overspend) £'000
Expenditure				
Employees	6,121	1,559	1,519	40
Supplies & Services	1,067	167	143	24
Computer Repairs & Software	450	113	134	(21)
Communications Costs	135	34	68	(34)
Other Premises	7	0	0	0
Other Transport	3	1	0	1
Total Expenditure	**7,783**	**1,874**	**1,864**	**10**
Income				
Fees & Charges	-3	-1	-5	4
Reimbursements & Other Income	-60	0	-1	1
Internal Billing	-97	-5	-5	0
SLA to Schools	-110	-1	-1	0
Total Income	**-270**	**-7**	**-12**	**5**
Net Operational Expenditure	**7,513**	**1,867**	**1,852**	**15**
Recharges				
Premises	190	48	48	0
Transport	34	9	10	(1)
Asset Charges	1,231	0	0	0
Central Support Services	1,106	276	276	0
Support Service Income	-9,935	-2,483	-2,484	1
Net Total Recharges	**-7,374**	**-2,150**	**-2,150**	**0**
Net Department Total	**139**	**-283**	**-298**	**15**

Communities Directorate – Revenue Spending to 30th June 2011

COMMUNITY & ENVIRONMENT DEPARTMENT

Revenue Budget as at 30 June 2011

	Annual Budget £'000	Budget To Date £'000	Actual to Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	11,623	3,011	3,184	(173)
Other Premises	1,183	424	404	20
Supplies & Services	1,408	385	326	59
Hired & Contracted Services	965	145	137	8
School Meals Food	1,689	292	260	32
Food Provisions	557	130	92	38
Bar Provisions	304	76	109	(33)
Book Fund	232	20	14	6
Transport	30	7	16	(9)
Consumer Protection Contract	443	110	109	1
Waste Disposal Contracts	5,190	372	344	28
Leisure Management Contract	1,395	349	362	(13)
Other Agency Costs	455	200	177	23
Total Expenditure	**25,474**	**5,521**	**5,534**	**(13)**
Income				
Fees & Charges Income	-2,569	-802	-775	(27)
Sales Income	-1,878	-478	-506	28
School Meals Sales	-2,128	-9	-8	(1)
School Meals Other Income	-1,850	-73	-81	8
Rents Income	-83	-11	-16	5
Government Grant Income	-26	-2	-3	1
Reimbursements & Other Income	-922	-74	-55	(19)
Schools SLA Income	-240	-32	-32	0
Internal Fees Income	-319	-52	-29	(23)
Capital Salaries	-101	0	-17	17
Total Income	**-10,116**	**-1,533**	**-1,522**	**(11)**
Net Operational Expenditure	**15,358**	**3,988**	**4,012**	**(24)**
Recharges				
Premises Support	1,603	318	318	0
Asset Charges	2,483	0	0	0
Central Support Services	3,961	1,032	1,032	0
Departmental Support Services	87	22	22	0
Transport Recharges	2,166	415	415	0
HBC Support Costs Income	-329	-66	-66	0
Net Total Recharges	**9,971**	**1,721**	**1,721**	**0**
Net Department Total	**25,329**	**5,709**	**5,733**	**(24)**

COMMUNITIES- PREVENTION & ASSESSMENT DEPARTMENT

Revenue Budget as at 30th June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	7,063	1,708	1,732	(24)
Other Premises	67	11	10	1
Supplies & Services	576	220	200	20
Transport	65	10	10	0
Food Provision	19	5	7	(2)
Aids & Adaptations	113	20	19	1
Contribution to JES	231	0	0	0
Unapportioned Grants	800	0	0	0
Community Care:				
Residential & Nursing Care	7,965	1,730	1,876	(146)
Homecare & Supported Living	6,817	1,338	1,446	(108)
Direct Payments	2,463	650	646	4
Day Care	243	56	66	(10)
Key Safe Expenditure	21	5	5	0
Other Agency	124	30	34	(4)
Contribution to Intermediate Care Pool	2,281	541	536	5
Total Expenditure	**28,848**	**6,324**	**6,587**	**(263)**
Income				
Other Fees & Charges	-301	-36	-46	10
Sales Income	-25	-13	-13	0
Reimbursements	-2,250	-473	-473	0
Residential & Nursing Income	-2,421	-562	-565	3
Community Care Income	-526	-131	-121	(10)
Direct Payments Income	-82	-21	-32	11
Transfer from Reserves	-330	0	0	0
LD & Health Reform Allocation	-4,272	0	0	0
Total Income	**-10,207**	**-1,236**	**-1,250**	**14**
Net Operational Expenditure	**18,641**	**5,088**	**5,337**	**(249)**
Recharges				
Premises Support	308	73	73	0
Asset Charges	160	3	3	0
Central Support Services	2,622	634	634	0
Transport	79	21	21	0
Internal Recharge Income	-420	0	0	0
Total Recharges	**2,749**	**731**	**731**	**0**
Net Departmental Total	**21,390**	**5,819**	**6,068**	**(249)**

COMMISSIONING & COMPLEX NEEDS DEPARTMENT

Revenue Budget as at 30TH June 2011

	Annual Budget £'000	Budget To Date £'000	Actual To Date £'000	Variance To Date (overspend) £'000
Expenditure				
Employees	7,326	1,923	1,956	(33)
Other Premises	318	139	153	(14)
Supplies & Services	2,470	227	230	(3)
Contracts & SLA's	1,317	132	109	23
Transport	295	64	51	13
Emergency Duty Team	103	0	0	0
Community Care:				
Residential & Nursing Care	806	96	80	16
Home Care & Supported Living	492	80	87	(7)
Direct Payments	144	43	49	(6)
Day Care	11	1	2	(1)
Food Provision	35	9	4	5
Other Agency Costs	1	0	0	0
SP Payments To Providers	4,216	1,197	1,215	(18)
Grants To Voluntary Organisations	270	119	123	(4)
Total Expenditure	**17,804**	**4,030**	**4,059**	**(29)**
Income				
Residential & Nursing Fees	-68	-13	-14	1
Direct Payment Charges	-3	-1	-1	0
Community Care Income	-4	-1	-1	0
Sales & Rents Income	-183	-117	-100	(17)
Fees & Charges	-387	-94	-111	17
PCT Reimbursements	-2,616	-234	-253	19
Government Grants:				
Community Safety	-319	-30	-37	7
Housing	-56	-41	-45	4
Transfer From Reserves	-142	-142	-142	0
Capital Salaries	-84	0	0	0
Total Income	**-3,862**	**-673**	**-704**	**31**
Net Operational Expenditure	**13,942**	**3,357**	**3,355**	**2**
Recharges				
Premises Support	508	107	107	0
Asset Charges	406	0	0	0
Central Support Services	2,278	519	519	0
Transport Recharges	449	110	110	0
Internal Recharge Income	-88	0	0	0
Net Total Recharges	**3,553**	**736**	**736**	**0**
Net Departmental Total	**17,495**	**4,093**	**4,091**	**2**

APPENDIX 2

Capital Expenditure to 30th June 2011

Directorate/Department	Actual Expenditure to Date £'000	2011/12 Cumulative Capital Allocation				Capital Allocation 2012/13 £'000	Capital Allocation 2013/14 £'000
		Quarter 1 £'000	Quarter 2 £'000	Quarter 3 £'000	Quarter 4 £000		
<u>Children and Enterprise Directorate</u>							
Schools Related							
Asset Management Data	0	0	2	5	15	0	0
Fire Compartmentation	7	7	15	40	55	0	0
Capital Repairs	182	181	750	1,200	1,564	0	0
Asbestos Management	2	1	4	15	30	0	0
Schools Access Initiative	0	0	50	100	150	0	0
Aiming Higher for Disabled Children	0	0	10	14	19	0	0
Education Programme (General)	87	108	226	339	452	0	0
Harnessing Technologies	5	10	20	29	39	0	0
Basic Need Projects	0	0	0	0	1690	0	0
Childrens Centres	2	18	62	93	124	0	0
Wade Deacon High School	3,733	4,042	8,086	12,129	16,171	12,129	0
The Grange School	0	0	0	0	0	1,900	0
Employment, Econ Regeneration & Business Development							
Castlefields Regeneration	108	1,082	2,164	3,246	4,328	584	0
3MG	44	26	52	78	105	0	0
Widnes Waterfront	32	44	89	133	177	500	0
The Hive	792	800	850	5,510	8,018	0	0
Bayer Purchase (Contamination)	0	0	0	50	774	0	0
Growth Point	131	161	321	482	642	0	0
Property Purchases	5	5	11	40	40	0	0
Municipal Building Refurbishment	153	41	82	123	164	38	0
Disability Discrimination Act	12	75	150	225	300	300	300
Total Children and Enterprise	**5,295**	**6,602**	**12,944**	**23,851**	**34,857**	**15,451**	**300**

Directorate/Department	Actual Expenditure to Date £'000	2011/12 Cumulative Capital Allocation				Capital Allocation 2012/13 £'000	Capital Allocation 2013/14 £'000
		Quarter 1 £'000	Quarter 2 £'000	Quarter 3 £'000	Quarter 4 £000		
<u>Communities Directorate</u>							
Community & Environment							
Stadium Minor Works	7	8	15	23	30	30	30
Children's Playground Equipment	0	0	2	22	75	65	65
Landfill Tax Credit Schemes	0	0	170	255	340	340	340
Parks & Playgrounds	110	98	125	233	369	185	0
Runcorn Cemetery Extension	2	6	12	75	256	55	0
Installation of Multi Use Games Areas	0	31	50	75	107	0	0
Improvements to Allotments	0	2	3	4	6	0	0
Runcorn Town Hall Park	0	4	11	21	127	0	0
Wheeled Bins	0	5	10	15	20	20	20
Commissioning & Complex Care							
Grants for Renovation/Home Repairs	39	59	118	177	236	0	0
Grants for Disabled Facilities	5	165	330	495	660	0	0
Energy Promotion	0	2	3	5	6	0	0
Joint Funding RSL Adaptations	134	140	280	420	560	0	0
Modular Buildings	0	7	14	20	27	0	0
Stair Lifts	47	50	100	150	200	0	0
Extra Care Housing	0	116	232	347	463	0	0
Choice Based Lettings	0	10	20	30	40	0	0
Out of Borough Placements	0	116	232	348	464	0	0
User Led Adaptations	0	14	28	41	55	0	0
Adult Programme	0	0	0	0	0	335	0
Prevention & Assessment							
Re-design Oakmeadow	0	7	14	21	28	0	0
Total Communities Directorate	**344**	**840**	**1,769**	**2,777**	**4,069**	**1,030**	**455**

Directorate/Department	Actual Expenditure to Date £'000	2011/12 Cumulative Capital Allocation				Capital Allocation 2012/13 £'000	Capital Allocation 2013/14 £'000
		Quarter 1 £'000	Quarter 2 £'000	Quarter 3 £'000	Quarter 4 £000		
Policy & Resources Directorate							
ICT & Support Services							
IT Rolling Programme	130	281	562	843	1,124	1,100	1,100
Policy, Planning & Transportation							
Local Transport Plan							
Bridge Maintenance	94	102	655	1,037	1,415	600	600
Highway Maintenance	132	371	742	1,112	1,483	1,478	1,360
Integrated Transport	27	134	268	401	535	560	560
Network Mgmt & Street Lighting	0	36	73	109	145	165	165
Silver Jubilee Bridge Major Maintnce	19	19	319	2,313	3,500	3,495	3,711
Flood Defence	0	27	53	80	106	0	0
Street Lighting Structural Maintenance	13	50	100	150	200	200	200
Risk Management	0	30	60	90	120	120	120
Fleet Replacements	18	18	268	352	370	0	0
Mersey Gateway							
Early Land Acquisition	1,385	1,344	9,350	16,634	31,988	27,082	4,391
Section 106 Schemes							
B&Q Site – Public Transport	0	13	26	38	51	0	0
Asda - Runcorn	0	41	83	124	165	0	0
Total Policy & Resources	**1,818**	**2,466**	**12,559**	**23,283**	**41,202**	**34,800**	**12,207**
TOTAL CAPITAL PROGRAMME	**7,457**	**9,908**	**27,272**	**49,911**	**80,128**	**51,281**	**12,962**
Slippage (20%)					-16,026	-10,256	-2,592
						16,026	10,256
Total	**7,457**	**9,908**	**27,272**	**49,911**	**64,102**	**57,051**	**20,626**

REPORT TO: Executive Board Sub Committee

DATE: 8 September 2011

REPORTING OFFICER: Strategic Director – Policy and Resources

TITLE: ICT Capital Review

WARDS: Borough Wide

1.0 PURPOSE OF REPORT

1.1 To set out the current spending profile and outline the final infrastructure requirement for 2011/2012.

2.0 RECOMMENDED: That the Board supports the ICT Capital programme.

3.0 BACKGROUND/SUPPORTING INFORMATION

3.1 The authority's continued focus upon the deployment and maintenance of its technology platforms for individual business areas has enabled the ICT & Support Service to maintain a solid operational base upon which to deploy not only the many third party software solutions the Council requires, but a high volume of in-house developed systems and solutions supporting the current efficiency programme and reducing directorate capital and revenue requirement.

3.2 Member support for this long term strategy has realised considerable savings and efficiencies over the last 5 years, and this current operational requirement maintains and supports the continuation of this strategy for the 2011/2012 financial period.

3.3 The growing demand for and cost of technology will always be present in a business the size of this authority. The strategy for reducing or managing limited revenue growth whilst maintaining this constant demand in technology will always prove a challenge.

3.4 In order to support the current demand for technology growth and replacement the authority requires an investment in the region of 1.3 million pounds this year in relation to the £1.1 million Capital budget made available. All projects have been identified within appendix 1 and through smart procurement tactics, financial year-end discount opportunities, detailed specification and programme management the budget is expected to support the current requirement.

3.5 It is fully appreciated that any increase is beyond the capacity of the authority and as such, all capital investment will be targeted to the maintenance and support of existing equipment that has become no longer viable, in terms of spare parts and its operational ability. Every effort will be made to comply with the full programme requirement through additional income generation and effective purchasing.

3.6 The corporate rollout of the new “Lync” telephony solution continues supported by the corporate rollout of the new Windows 7 operating system and Office 2010 suite with targeted installation dates between October and December 2011.

3.7 The device replacement strategy has been reviewed and new device strategies are now in place to reduce the cost of equipment and clearly focus upon operational requirement.

3.8 As always brand and extended reliability only ever come at a cost, this strategy has proven a solid one over the last 5 years but has needed to be reviewed and a trade-off between warranty length, brand and purchasing policies has been established in order to utilise the available budget. The positive feedback from the recent member’s device replacement has proven this strategy to be a solid one, and a post implementation review of this device strategy will be undertaken within 18 months.

3.9 It is fully understood by all that the demand for the use of technology will only ever increase over the coming years as the Council looks to technology and the use of improved process to reduce its revenue requirements. The technology strategy will always be to maintain an infrastructure and support platform that will support such change and growth whilst maintaining an acceptable capital and revenue requirement within the boundaries of the authorities’ financial capacity.

3.10 A detailed breakdown of the capital requirement is attached for discussion: - Appendix 1.

4.0 POLICY IMPLICATIONS

4.1 All front line services are supported through the use of technology, data systems and the subsequent administrative solutions. As such the poor maintenance of such vital support mechanisms remains a high risk strategy. Each strategic objective of the authority is supported in some way by technology.

5.0 OTHER IMPLICATIONS

5.1 The consequence associated with delays in maintenance and replacement can often inflict considerable issues upon the individual directorates and their ability to operate front line services when systems or the support infrastructure fails.

5.2 Disaster recovery arrangements are in place, ongoing efforts make this a clear and continuous focus for the department supported by the need to maintain a practical and reasonable level of onward investment.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children and Young People in Halton

All of the council's priorities are supported by an effective and efficient ICT Systems. The continued investment in ICT will ensure this will continue.

6.2 Employment, Learning and Skills in Halton

All of the council's priorities are supported by an effective and efficient ICT Systems. The continued investment in ICT will ensure this will continue.

6.3 A Healthy Halton

All of the council's priorities are supported by an effective and efficient ICT Systems. The continued investment in ICT will ensure this will continue.

6.4 A Safer Halton

All of the council's priorities are supported by an effective and efficient ICT Systems. The continued investment in ICT will ensure this will continue.

6.5 Halton's Urban Renewal

All of the council's priorities are supported by an effective and efficient ICT Systems. The continued investment in ICT will ensure this will continue.

7.0 RISK ANALYSIS

7.1 The consequence associated with delays in maintenance and replacement can often inflict considerable issues upon the individual directorates and their ability to operate front line services when systems or the support infrastructure fails.

7.2 Disaster recovery arrangements are in place, on-going efforts make this a clear and continuous focus for the department supported by the need to maintain a practical and reasonable level of onward investment.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

9.1 There are no background papers under the meaning of the Act.

Schools Infrastructure, £100,000

This project is to unify the infrastructure of all nursery, primary and junior schools that opt into the HBC ICT support SLA for curriculum machines. This will provide a corporate and secure Email, Web-Filtering, Antivirus, Active Directory Structure and CAS Servers (part of Exchange 2010 - email) at each school; this will form the basis for a long term income for the Council opportunity across all of the Halton Schools and possibly beyond our boundaries if opportunities exist for other 3rd party services/business.

This investment is intended to secure the Halton SLA as being unique but most importantly considerably more desirable, in that this solution will add value over and above the commercial offerings to the schools we see at the moment. This investment then improves the income opportunities by providing a highly desirable support solution that will grow with schools own requirement's over the coming years, without becoming too costly for them.

Arp Switch Upgrade, £30,000

Following a formal security test, a vulnerability has been identified within the core switch servicing the council's network. This requires an urgent hardware upgrade to part of the switch to mitigate this potential issue. This is required in order that HBC remains compliant with the current Code of Connection, as such we have no choice but to upgrade.

Server Replacement Programme, £100,000

The Council operates a similar Desktop Replacement programme; however, Server replacements are dealt with on a one off basis given the cost and specification of these specialised devices – currently supported by the use of extended warranty but limited by replacement parts availability.

Servers are a specialist item supporting all departments, the current policy of extended use and virtualisation enables the Council to be able to reduce revenue commitments associated with end of warranty replacement as we would with PC equipment and utilise this investment in areas of growth in order to stabilise revenue increases.

Items such as this are no different to commercial vehicles so long as the performance and reliability are easily maintained there is little need to replace the item until either aspect comes into question. But as with commercial vehicles as a large business we own and operate a large fleet of units and a constant need for upgrade will always remain in order to service the needs of the wider business areas.

Corporate SharePoint, £150,000

The Council is committed to Microsoft as its core technology in order to standardise and utilise the integration opportunities this allows us. The Council is upgrading to Windows 7, Office 2010, Lync telephony, and Windows Server to create a platform suitable for supporting the needs of the council for the next 5 years.

SharePoint is a key core component within this mix that is needed to bring all of the Microsoft Technologies and our vast stores of documentation and data together, as well as provide a “Hub” that integrates other major corporate applications such as the Social Care systems and the key financial and HR solutions that are in constant daily use.

SharePoint is intended to be the engine room that store’s all user data, allowing it to be accessible from any location via a secure and controlled means. SharePoint replaces “file-shares”, allowing controlled and organised Information Management that provides users with detailed control’s over their information; including the ability to manage and share files with anyone within the Council. Systems such as the Anite document management solution will not work effectively across the corporate environment without such support and require this solution as the base platform in order to operate effectively in a multi service environment.

SharePoint can also host the Councils Intranet, and even the Internet which means that users will use a single technology to manage their own files and the way that the rest of the Council and the outside world sees their service.

This project will acquire the hardware and software to develop this corporate platform over the next 12 – 36 months as requirement grows.

Internet, £50,000

This simply relates to a Licence cost to enable SharePoint to be accessible over the Internet, this is to enable unlimited public access to the services under the Microsoft licensing regulations.

Microsoft Enterprise Agreement, £112,703

Licence costs for Microsoft core products – as it stands the authority would have had to find just under 1 million pounds this year to maintain a full Enterprise agreement for the next 3 years. Through the smart use of technology and the licensing of software through the previous agreement the authority is now licensed to use the latest set of Microsoft desktop products that will see us through the next 3 – 5 years without any major investment within this area for its 1,800 Microsoft Office users. The current capital investment will allow for a license known as a “core cal”, which will allow the authority to maintain security patching, vital upgrades and user certificates for the current base of software that we now own. Before any major decisions need to be made as to the upgrade requirements into the future.

3 – 5 years is a long time in terms of technology but we have to look at previous strategies that have allowed us to stretch almost 7 years out of the current desktop solutions' that are now being replaced; with what is leading edge technology, that will potentially allow for a similar extended return on investment.

Microsoft Premier Agreement, £33,000

The Microsoft Premier Agreement is a 'central pot of specialist engineer time' that provides 3 key areas, helpdesk facility for logging emergency technical calls with Microsoft, onsite specific training plus overviews for future strategic purposes in relation to software compatibility and changes. Together with onsite dedicated field engineers for the implementation of projects including skills transfer.

The helpdesk facility is required to provide immediate support for some of the authority's key systems such as email, internet, SQL databases, telephone and all Microsoft related products as the ICT teams install and configure these new services.

As a department we do not always have the luxury to maintain in house skills to implement some of the future Microsoft projects such as the initial development of SharePoint, the integration of the Lync system. A Microsoft engineer can both implement and provide the essential skills transfer for key members of staff within a matter of days which will become essential over the coming months as the rate of technology change will be quite considerable.

PC Replacement Programme, £140,000

On-going project to replace all PCs & Laptops that are now currently out of warranty or due to be out of warranty between 2012/2013. This involves some 400 devices at the last count. All devices are now subject to the new device strategy that allows devices to be tailored to user requirement, cost and maintenance needs. This has proven to be a popular strategy with the corporate user base; the recent member device replacement project fully supports this change in strategy with members voting to use the smaller and less costly netbook devices to support the objectives of the programme whilst gaining a device that covers their needs effectively.

AV Equipment for Muni Conference Rooms, £40,000

Audio-Visual solution for the Ground Floor, Municipal Buildings, this project is underway with further enhancements to the facilities planned as and when funding allows.

SAN to SAN Replication, £100,000

HBC currently has a VMware farm consisting of 275 servers which reside on a SAN.

VMware is simply a means of consolidating what used to be a high volume of stand-alone servers into an array of larger units that can now house what used to be 30 – 40 devices saving on space and the more important and costly aspects of power and cooling.

SAN relates to the term storage area network, this is where all of the councils applications that control our data are held be that email or Care Solutions; as it stands this is a hugely important aspect of the technology platform because this SAN controls the distribution of our most important asset, the client data and the specific process's we use to provide services to our residents.

The authority also owns a second SAN which currently only houses the Exchange 2003 (email) servers which are due to be migrated to a new Exchange 2010 email solution.

The next stage in this plan is to re-house the second SAN away from the main computer room to a council location that contains a fast fibre optic network.

Replication software, hardware and consultancy will need to be purchased and installed so that key virtual servers will then be able to be replicated between the VMware SAN and the second 'off-site' SAN in real time therefore creating a true off site disaster recovery environment.

Virtual Desktop/Apps Test Deployment, £20,000

This is a research and development project needed to implement a small virtual desktop infrastructure (VDI) to ascertain its benefits and discover if there is a place for this technology within the authority. Also involved in this would be software streaming moving us closer to the development of a dedicated Halton Cloud.

VDI would consolidate end user desktops onto centralised servers and would also allow centralised software streaming providing the ability to run software on a desktop without it being installed locally on any device therefore avoiding compatibility issues. Funding permitting this will form an essential aspect of future cost savings and a move away in certain areas from Citrix technologies that have served us well over the last few years.

Night-watchman Centralised PC Power Management, £40,000

As the name suggests this is power management software solution that allows desktop computing devices, to be turned on or off centrally or remotely at specific times.

We may for example require a desktop to be security patched including Microsoft, Adobe and 3rd party software updates therefore the desktop would need to be on at the time required to carry out these tasks, and then turned off once the task is completed. There may be a requirement for certain PC's to be off at certain times due to energy efficiency, this is also achievable.

The software is also capable of producing reports indicating desktop uptime and efficiency stats on usage.

SCOM Consultancy, £20,000

This is a centralised monitoring and alerting system that we currently operate that requires updating for use with the new desktop environment.

Most 3rd party applications have plug in SCOM modules so it's not just an early warning system for Microsoft servers, it will also report on the operational health of major software packages we use on a daily basis.

A member of our technical staff is due to attend a course and the consultancy would be used to complement the course and to configure this solution to manage within the new environment.

Unified Communications 2nd Phase, £150,000

Following the successful pilot of Lync 2010 by ICT services and a small number of Admin support staff, it is now the intention to roll out this technology to the rest of the authority. This will empower the staff within the authority to work more productively, using the technologies that are at the core of Microsoft Lync 2010, such as document collaboration, links to email and services such as voicemail, video conferencing and simplified home working. The proposed roll out schedule has been formulated to maximise revenue savings as early in the project as possible.

Marshgate ICT Workshop Additional Work Space, £30,000

If funding allows toward the end of the financial year this project is to extend the current working environment upwards into the roof space in order to provide additional work space for the staff as well as storage for stock.

Backup System Phase 3, £170,000

Back up Phase 3 is to further enhance our current back-up system. The project will include adding capacity to our existing de-duplication unit, and adding an offsite solution to allow for essential offsite disaster recovery. This will also include the physical relocation of the back-up tape jukebox to allow fully automated off site tape storage.

Data Centre Monitoring Equipment, £25,000

Data Centre monitoring equipment is needed to improve the monitoring of the vast array of systems, such as power, environment, and to look to allowing greater efficiencies. This will include connecting all the data centre uninterruptable power supplies to the network allowing the systems to report power consumption and operational load within the data centre.

Data Centre Equipment, £35,000

This is to replace a number of out-dated and broken specialised server screens, server storage racks and ancillary equipment that have come to the end of their natural life. This is essential maintenance linked to the provision of new server racking to allow the addition of hardware, due to the continued growth in demand for centralised data services as these costs sit outside of the standard hardware provision and fall into data centre maintenance and growth requirement.

Agenda Item 3c

REPORT TO:	Executive Board Sub-Committee
DATE:	8th September 2011
REPORTING OFFICER:	Operational Director – Finance
TITLE:	Treasury Management 2010/11
WARDS:	All

1.0 PURPOSE OF REPORT

1.1 To review treasury management during 2010/11 in accordance with Halton Borough Council's Treasury Management Policy Statement.

2.0 RECOMMENDED: Approve the actual 2010/11 prudential and treasury indicators in this report and note the annual treasury management report for 2010/11

3.0 SUPPORTING INFORMATION

3.1 The annual review is attached in Appendix 1. 2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive

4.0 POLICY IMPLICATIONS

4.1 Credit ratings are one method used by the Council to assess the credit worthiness of counterparties on the approved list for short term investments. During 2010/11, the Council continued to review the suitability of approved counterparties against the Treasury Management Strategy (TMS). Any who fell below the minimum requirements specified by the TMS were placed on hold and no further deposits were made. These restrictions placed a heavy burden on the Council to find a suitable counterparty to invest deposits with whilst maintaining the priority towards Security, Liquidity and Yield.

4.2 During 2010/11, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, can be found in Appendix 2 to this report.

5.0 OTHER IMPLICATIONS

5.1 The Treasury Management function has consistently contributed to the budget and helped to fund local services. In 2010/11, Treasury Management generated £0.468m investment income, principally by locking in long term investments during 2008.

5.2 There are no more long term investments which will generate the returns experienced in previous years. It is anticipated that investment income will reduce significantly in 2011/12 as investment rates continue to produce significantly less returns on investment.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children and Young People in Halton

None.

6.2 Employment, Learning and Skills in Halton

None.

6.3 A Healthy Halton

None.

6.4 A Safer Halton

None.

6.5 Halton's Urban Renewal

None.

7.0 RISK ANALYSIS

7.1 The main risks associated with Treasury Management are the security of investment, accessing funds when required and the volatility of return. To combat this, the Council operates within a clearly defined Treasury Management Policy and an annual Borrowing and Investment Strategy which sets out the control framework.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no issues under this heading.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Working papers	Financial Management Division	M. Lloyd

HALTON BOROUGH COUNCIL

REVIEW OF TREASURY MANAGEMENT

2010/11

FINANCIAL MANAGEMENT DIVISION
AUGUST 2011

APPENDIX 1

Treasury Management - Annual Review 2010/11

1.0 Introduction and Background

1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and actual prudential and treasury indicators for 2010/11. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2010/11 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury management and investment strategy in advance of the year (Council 3rd March 2010).
- A mid-year treasury update report (Quarter 2: July-September)
- An annual report following the year describing the activity compared to the strategy (this report).

In addition, Executive Board Sub Committee has received quarterly treasury management update reports detailing treasury management activity throughout the year.

1.3 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 Treasury Management is defined as "The management of the Local Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimal performance consistent with those risks.

1.5 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;

- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2.0 The Council's Capital Expenditure and Financing 2010/11

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If there is insufficient financing, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£millions	2009/10 Actual	2010/11 Estimate	2010/11 Actual
Non-HRA capital expenditure	33,208	57,054	42,964
Resourced by:			
Supported Capital Expenditure	6,790	4,081	2,138
Capital Receipts/Reserve	3,587	4,502	3,810
Capital Grants and Contributions	13,820	25,755	24,998
Revenue	634	0	971
Unfinanced Capital Expenditure	**8,377**	**22,716**	**11,048**

3.0 The Council's overall borrowing need

3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2010/11 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the

Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

3.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.4 The Council's 2010/11 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2010/11 on the 3rd March 2010.

3.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes leasing schemes on the balance sheet, which increase the Council's borrowing need.

CFR(£millions)	31 March 2010 Actual	31 March 2011 Original Indicator	31 March 2011 Actual
Opening balance	65,012	75,069	78,278
Add supported capital expenditure	6,790	4,081	2,138
Add unfinanced capital expenditure	8,377	22,716	11,048
Add adjustment for the inclusion of leases	890	0	332
Less MRP/VRP	(2,791)	(1,991)	(2,760)
Closing balance	**78,278**	**99,875**	**89,036**

3.6 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

3.7 Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

£millions	31 March 2010 Actual	31 March 2011 Original Indicator	31 March 2011 Actual
Net borrowing position	12,376	20,768	10,426
CFR	78,278	99,875	89,036

3.8 The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Council has maintained gross borrowing within its authorised limit.

3.9 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

3.10 Actual financing costs as a proportion of 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.

		2010/11 Actual
Authorised limit	£m	84,660
Maximum gross borrowing position	£m	26,250
Operational boundary	£m	79,660
Average gross borrowing position	£m	20,813
Financing costs as a proportion of net revenue stream	%	2.37

4.0 Treasury Position as at 31 March 2011

4.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2010/11 the Council's treasury position was as follows:

	31st March 2011				31st March 2010		
	Principal £m	£m	Rate %	Ave Life Yrs	Principal £m	Rate %	Ave Life Yrs
Fixed Rate Funding							
- PWLB	10.00		3.70	45	10.00	3.70	46
- Market	10.00	20.00	4.42	55	10.00	4.42	56
Variable Rate Funding							
- PWLB	0.00				0.00		
- Market	0.00	0.00			2.00	0.32	
Total Debt		**20.00**	**4.06**		**22.00**	**3.84**	
CFR		**89.03**			**78.28**		
Over/(Under) borrowing		**(69.03)**	**77.54**		**(56.28)**	**71.90**	
Investments							
- In House	9.55				16.10		
- With Managers	0.00	9.55	1.14		0.00	4.65	
Total Investments		**9.55**	**1.14**		**16.10**	**4.65**	

4.2 The maturity structure of the debt portfolio was as follows:

	31 March 2010 Actual	2010/11 Original Limits	31 March 2011 Actual
Under 12 months	0	50%	0
12 months and within 24 months	0	75%	0
24 months and within 5 years	0	75%	0
5 years and within 10 years	0	75%	0
10 years and above	100%	75%	100%

There was no long term borrowing during 2010/11 to finance the capital programme. Existing PWLB £10.0 million and EuroHypo £10.0 million loans remained the only borrowings to mature in excess of 10 years.

4.3 All investments placed during 2010/11 had a maturity of less than 364 days.

4.4 The exposure to fixed and variable rates was as follows:

	31 March 2010 Actual	2010/11 Original Limits	31 March 2011 Actual
Fixed Rate (Principal)	18%	75%	52%
Variable Rate (Principal)	9%	75%	0%

5.0 The Strategy for 2010/11

5.1 The Council's Treasury Management Strategy for 2010/11 is attached as Appendix 3 to this report.

5.2 There were changes in expectations of Bank Rate and PWLB rates which were factored into the treasury management operation during 2010/11. There were no revisions to the strategy during the year.

6.0 The Economy and Interest Rates

6.1 UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

6.2 The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any "giveaway" in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

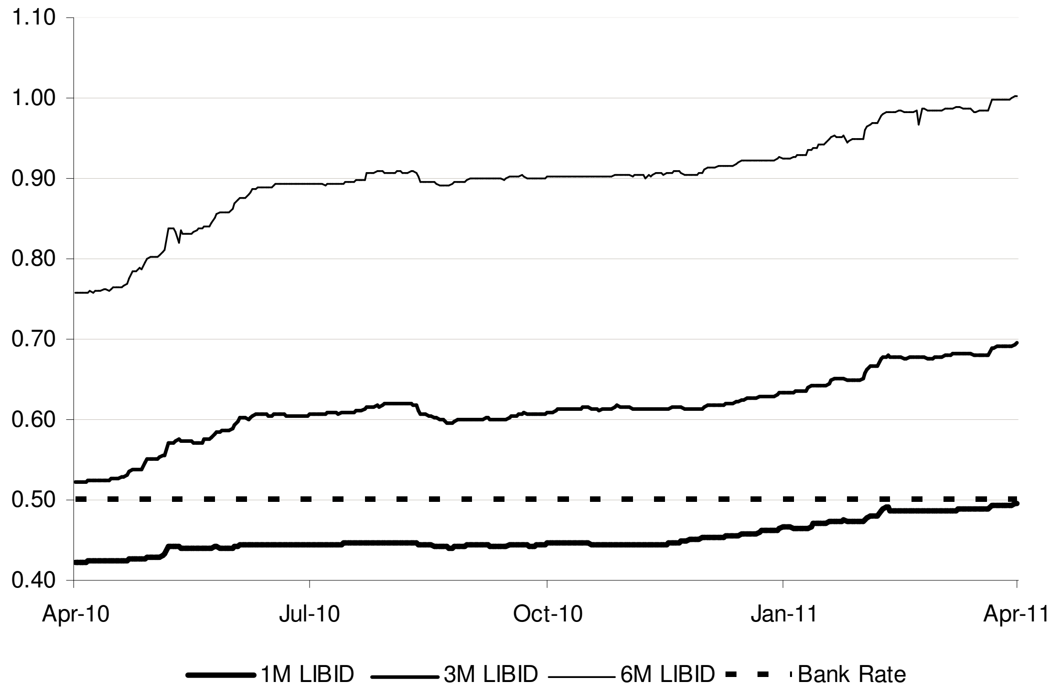
6.3 Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February / March 2011) to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected.

6.4 The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU/IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

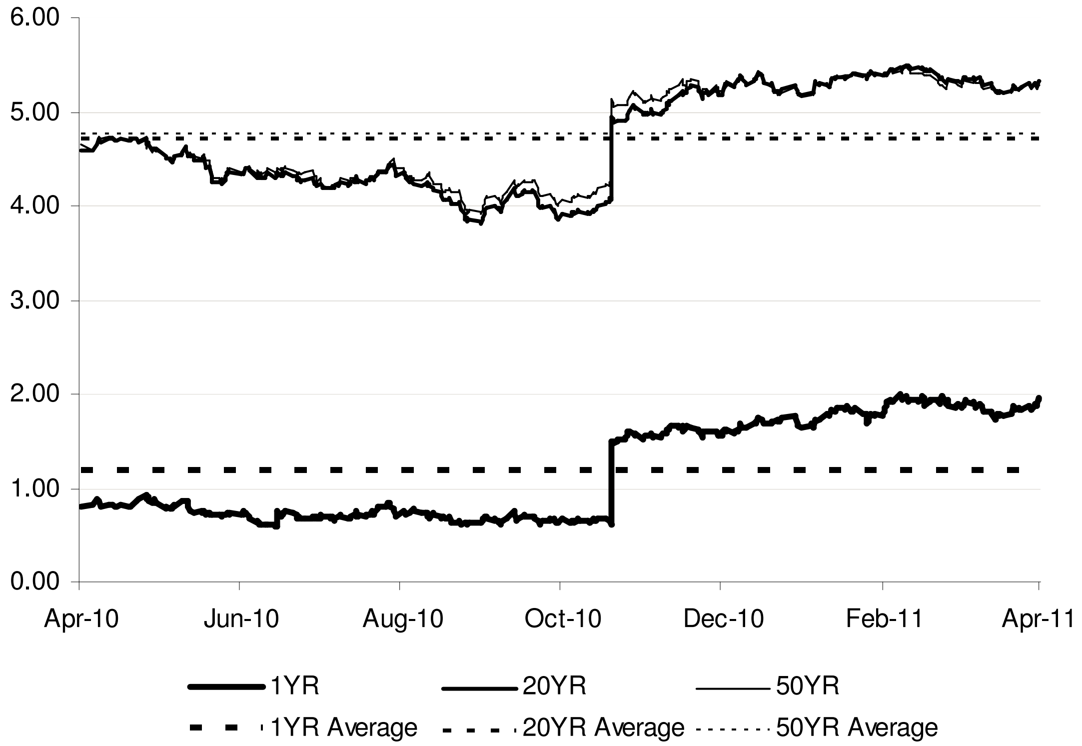
6.5 Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

6.6 Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks "failed" the test, investors were highly sceptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid-2011.

Bank Rate v LIBID investment rates



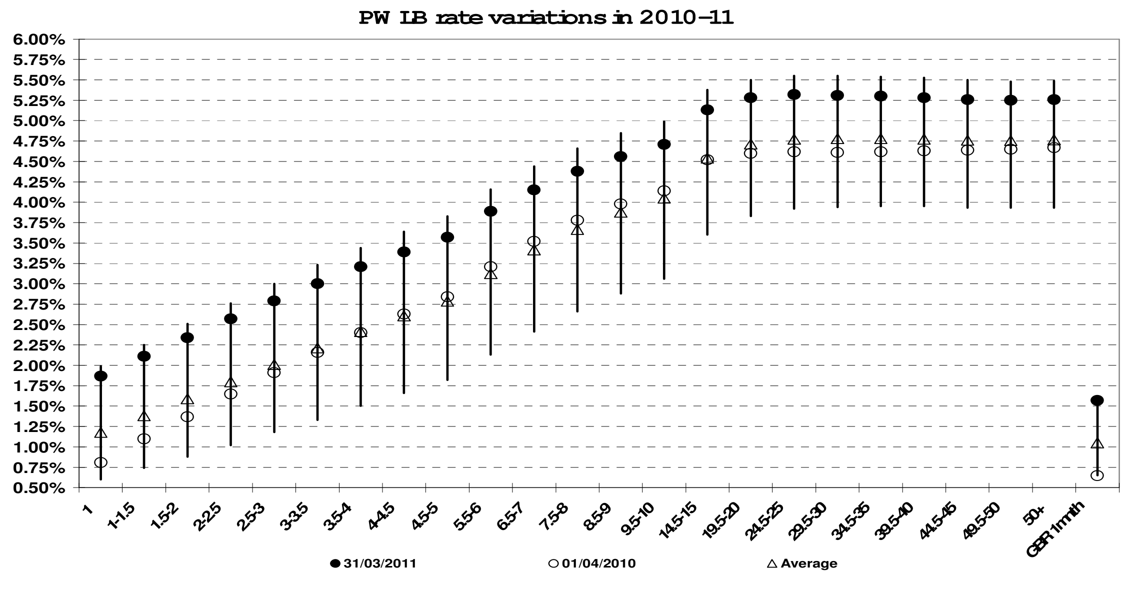
Average v new borrowing rates



6.0 Borrowing Rates in 2010/11

6.1 The graph and table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.

6.2 Variations in most PWLB rates have been distorted by the October 2010 decision by the PWLB to raise it borrowing rates by about 0.75 – 0.85% e.g. if it had not been for this change, the 25 year PWLB at 31 March 2011 (5.32%) would have been only marginally higher than the position at 1 April 2010.



PWLB BORROWING RATES 2010/11 for 1 to 50 years

	1	1.5-2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
01/04/2010	0.810%	1.370%	1.910%	2.400%	2.840%	4.140%	4.620%	4.650%	0.650%
31/03/2011	1.870%	2.340%	2.790%	3.210%	3.570%	4.710%	5.320%	5.250%	1.570%
HIGH	1.990%	2.510%	3.000%	3.440%	3.830%	4.990%	5.550%	5.480%	1.570%
LOW	0.600%	0.880%	1.180%	1.500%	1.820%	3.060%	3.920%	3.930%	0.650%
Average	1.177%	1.590%	2.009%	2.413%	2.788%	4.050%	4.771%	4.756%	1.052%
Spread	1.390%	1.630%	1.820%	1.940%	2.010%	1.930%	1.630%	1.550%	0.920%
High date	07/02/2011	07/02/2011	07/02/2011	07/02/2011	09/02/2011	09/02/2011	09/02/2011	09/02/2011	07/03/2011
Low date	15/06/2010	12/10/2010	12/10/2010	12/10/2010	12/10/2010	31/08/2010	31/08/2010	31/08/2010	01/04/2010

7.0 Borrowing Outturn for 2010/11

7.1 There was no long term borrowing from either the PWLB or market during 2010/11.

7.2 There was no rescheduling of any long term borrowing from either the PWLB or market during 2010/11.

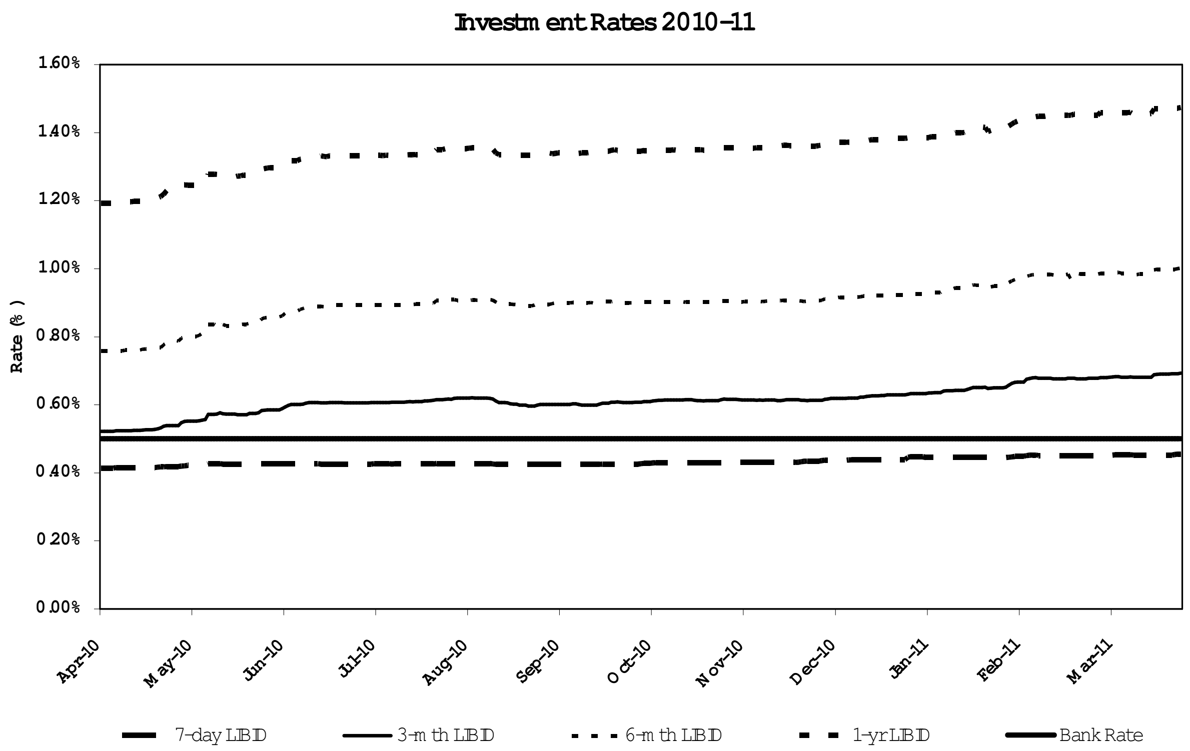
7.3 There was no repayment of any long term borrowing from either the PWLB or market during 2010/11.

8.0 Investment Rates in 2010/11

8.1 The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.

8.2 Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.

	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2010	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31/03/2011	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%
Spread	0.03%	0.04%	0.07%	0.17%	0.24%	0.28%
High date	31/12/2010	30/03/2011	31/03/2011	31/03/2011	31/03/2011	31/03/2011
Low date	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010



9.0 Investment Outturn for 2010/11

9.1 The Council's investment policy is governed by CLG guidance, which was been implemented in the Annual Investment Strategy approved by the Council on 3rd March 2010. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 The Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31 March 2010	31 March 2011
General Balances	10,559	10,532
Earmarked Reserves	26,833	27,928
Usable Capital Receipts	10,099	8,039
Capital Grants Unapplied	6,004	912
Total	**53,495**	**47,411**

9.4 The Council maintained an average balance of £12.83m of internally managed funds. The internally managed funds earned an average rate of return of 3.66%. The comparable performance indicator is the 7-day LIBID rate which was 0.43%. This compares with a budget assumption of £8.98m investment balances earning an average rate of 1%.

Appendix 2

Prudential and Treasury Indicators 2010/11

A summary of the Prudential and Treasury indicators included in the main body of the report is as follows:

	2009/10 Actual £'000	2010/11 Original £'000	2010/11 Actual £'000
Prudential Indicators			
Capital Expenditure	33,208	57,054	42,964
Ratio of financing costs to net revenue stream	0.67%	2.85%	2.37%
Net borrowing requirement	12,376	20,768	10,426
Capital Financing Requirement as at 31 March	78,278	99,875	89,036
Annual change in Capital Financing Requirement	15,630	24,806	13,086
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	1.44	29.61	3.94
Treasury Management Indicators			
Authorised Limit for external debt	70,500	84,660	26,250
Operational Boundary for external debt	65,500	79,660	26,250
Actual external debt	22,000	44,800	20,000
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing/investments	75%	75%	52%
Upper limit for variable interest rate exposure			
Net principal re variable rate borrowing/investments	75%	75%	0%
Upper limit for total principal sums invested longer than 364days			
1-2 years	60%	60%	0%
2-3 years	30%	30%	0%

% **Maturity structure of fixed rate borrowing during 2010/11**	**Upper Limit**	**Lower Limit**
Under 12 months	0%	0
12 months and within 24 months	0%	0
24 months and within 5 years	0%	0
5 years and within 10 years	0%	0
10 years and above	100%	0

Appendix 3

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2010/11

1.0 INTRODUCTION

1.1 The suggested Treasury Management and Investment Strategy for 2010/11 covers the following aspects of the treasury management function and is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

- treasury limits in force which will limit the treasury risk and activities of the Council;
- the current treasury portfolio position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the annual investment strategy;
- debt rescheduling;
- minimum revenue provision statement;
- creditworthiness policy
- policy on using external service providers;
- treasury management indicators;
- adopting the revised CIPFA Code of Practice on Treasury Management.

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

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2.0 TREASURY LIMITS FOR 2010/11

2.1 It is a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit".

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

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

3.0 CURRENT TREASURY PORTFOLIO POSITION

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

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.

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."

3.2 The Council's treasury portfolio position at 25th January 2010 comprised:

		Principal		Average Rate
		£m	£m	%
Fixed Rate Funding	PWLB	10.00		3.70
	Market	10.00	20.00	4.42
Variable Rate Funding	PWLB	0.00		-
	Market	0.00	0.00	-
Total Borrowing			20.00	4.06
Other Long Term Liabilities			0.00	
Total Debt			20.00	
Total Investments			26.95	3.03

4.0 BORROWING REQUIREMENT FOR 2010/11–2012/13

4.1 The table below summarises the net borrowing requirement for the authority for the next three years based on the current level of supported borrowing indicated by the government and prudential borrowing contained in the capital programme.

	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000
New Borrowing	14,749	24,806	34,863	23,470
Alternative Financing Arrangements	-	-	-	-
Replacement Borrowing*	-	-	-	-
Total	14,749	24,806	34,863	23,470

*4.2 The £10m Lender's Option Borrower's Option (LOBO), currently with Euro Hypo bank is on 6 month options (shown as Fixed Rate market above). As such it could fall to be replaced in any of the years.

5.0 PROSPECTS FOR INTEREST RATES

5.1 The Council has appointed Sector Treasury Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix A draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Sector Bank Rate forecast for financial year ends (March)

- **2010 0.50%**
- **2011 1.50%**
- **2012 3.50%**
- **2013 4.50%**

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

6.0 BORROWING STRATEGY

6.1 Borrowing rates

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

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-12	Mar-13
Bank rate	0.50%	0.50%	0.75%	1.00%	1.50%	3.50%	4.50%
5yr PWLB rate	3.05%	3.20%	3.30%	3.40%	3.60%	4.60%	4.85%
10yr PWLB rate	4.00%	4.05%	4.15%	4.30%	4.45%	5.00%	5.15%
25yr PWLB rate	4.55%	4.65%	4.70%	4.80%	4.90%	5.20%	5.35%
50yr PWLB rate	4.60%	4.70%	4.75%	4.90%	5.00%	5.30%	5.45%

In view of the above forecast the Council's borrowing strategy will be based upon the following information.

- Rates are expected to gradually increase during the year so it should therefore be advantageous to time new long term borrowing for the start of the year when 25 year PWLB rates fall back to or below the central forecast rate of about 4.65%, a suitable trigger point for considering new fixed rate long term borrowing.
- Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to taking long term fixed rate borrowing.
- PWLB rates on loans of less than ten years duration are expected to be substantially lower than longer term PWLB rates offering a range of options for new borrowing which will spread debt maturities away from a concentration in long dated debt.
- There is expected to be little difference between 25 year and 50 year rates so therefore loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This would maximise the potential for debt rescheduling and allow the Council to rebalance its debt maturity profile.
- Consideration will also be given to borrowing fixed rate market loans at 25 – 50 basis points below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

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

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

6.2 External v Internal borrowing

Comparison of gross and net debt positions at year end	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	Actual	**Probable Out-turn**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Actual external debt (gross)	40,700	20,000	44,800	79,660	103,130
Cash Balances	(39,000)	(18,000)	(18,000)	(18,000)	(18,000)
Net Debt	**1,700**	**2,000**	**26,800**	**61,600**	**85,130**

- This Council currently has a forecast difference between gross debt and net debt (after deducting cash balances) at the year end of £2m.
- The general aim of the treasury management strategy over the past couple of years has been to reduce the difference between the two debt levels, in order to reduce the credit risk incurred by holding investments. By taking this measure throughout the last year, it has reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.
- The next financial year is expected to be one of historically abnormally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.
- Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external

debt (this is referred to as internal borrowing). This would maximise short term savings.

- However, short term savings by avoiding new long term external borrowing in 2010/11 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.
- The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007 has meant that the reduced discount achieved on the one loan the Council has with the PWLB would not justify the loss of such an excellent long term borrowing deal on value for money grounds. This situation will be monitored in case the differential is narrowed by the PWLB or when repayment rates rise substantially.

Against this background caution will be adopted with the 2010/11 treasury operations. The Operational Director Financial Services will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Executive Board Sub-Committee at the next available opportunity. It is likely that the Council's net debt will increase as the capital programme is delivered. To achieve this it may be necessary to borrow short term monies to meet any cash flow needs.

7.0 POLICY ON BORROWING IN ADVANCE OF NEED

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

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

8.0 ANNUAL INVESTMENT STRATEGY

8.1 Investment Policy

The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

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

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

Investment instruments identified for use in the financial year are listed under the 'Specified' and 'Non-Specified' Investments categories. Eligible counterparties and their limits were last reviewed and set by the Executive Board Sub Committee on the 29th January 2009. (Next review January 2011).

Specified v Non Specified investments

There have been an increasing number of innovative investment products being marketed over the past few years. They have arisen due to the relatively low interest rate environment which has prevailed during this period. The initial guidance from the CLG focused on high security and more particularly credit risk. This approach however does not deal with market risk, which is the sudden adverse movement in interest rates. In some products this could lead to a significant diminution of the maturity value below that of the original sum invested.

Because of this it has been suggested that if any investment other than a straight cash deposit is envisaged the following tests are applied ;-

1. the working of the product is fully understood;

2. the degree of risk exposure the product carries is identified;

3. the level of risk fits within the parameters set by the authority;

4. the product complies with the CIPFA Code of Practice on Treasury Management (prime focus on security and best value applied to optimise returns).

The Council has in the main used straightforward cash deposits, with both fixed and variable rates, but always with options to repay if the counterparty wanted to change the terms and agreement couldn't be reached. The issue therefore still boils down to credit risk and this is handled through the counterparty weighted rankings and prudential indicators which limit the amount that can be placed with non rated organisations at any one time.

Specified Investments:

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable (i.e. credit rated counterparties).

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
UK Government Gilts	UK Only (AAA)	In house
Bonds Issued by an Institution guaranteed by the UK government	UK Only (AAA)	In house
Term Deposits – UK Government	--	In-house
Term Deposits – Other LAs	--	In-house
Term Deposits – Banks and Building Societies	On Approved List and Rated AA or above	In-house

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Non-Specified Investments:

A maximum of 30% will be held in aggregate in non-specified investments for 2-3 years and 60% in 1 to 2 years. This group can include non credit rated organisations but with caution.

	Minimum Credit Criteria	Use	Max % of Total Investments	Max. Maturity Period
Term deposits – UK government (with maturities in excess of 1 year)	-	In-house	30% 60%	2-3 years 1-2 years
Term deposits – other LAs (with maturities in excess of 1 year)	-	In-house	30% 50%	2-3 years 1-2 years
Term deposits – banks and building societies (with maturities in excess of 1 year)	On Approved List and less than AA or Unrated.	In-house	30% 60%	2-3 years 1-2 years

The Council uses Moody's ratings to derive its criteria. Where the counterparty does not have a Moody's rating, the equivalent Fitch rating will be used. All credit ratings will be monitored on a regular basis. The Council is alerted to changes in credit ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

8.2 Investment Strategy

In-house funds: The Council's in-house managed funds have during the past twelve months (January to December) been in the value range of £26.95m to £50.55m with a core balance of around £18m which is available for investment over a longer (say) 2-3 year period. The current balance is £26.95m. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

The Council already has investments that span the financial year e.g. longer-dated deposits, which were taken out at various peaks of the last rate cycles as shown below.

	Amount (£000)	Maturity	Rate (%)
Newcastle BS	2,500	07/06/2010	6.53
Northern Rock Plc	2,500	23/07/2010	6.41
Skipton BS	5,000	03/11/2010	6.15
Barclays Plc	5,000	09/12/2010	2.20

Despite more attractive rates being available for longer periods, it is unlikely that further long dated investments will be undertaken at the present time or until the above investments mature or rates improve.

The interest rate outlook is particularly relevant to the performance of the Council's investment portfolio. Appendix 'A' shows quite clearly that rates are forecast to rise in the next financial year. The timing of any increase will be subject to the speed of any economic recovery. The Council has already placed as much of it's current portfolio into fixed rate, fixed period deals as it feels it can do within the current risk spread policy and cash flow requirements. The current policy will continue to be that of running down the level of investments, to reduce counterparty and interest rate exposure whilst waiting for the opportune time to borrow to fund its long term capital projects. This policy will minimise the impact of low investment rates.

For its cash flow generated balances, the Council will seek to utilise its business reserve account and short-dated deposits (1-3 months) in order to benefit from the compounding of interest.

8.3 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.

9.0 DEBT RESCHEDULING

9.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 40 – 50 basis points for the longest period loans narrowing down to 25 – 30 basis points for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, significant interest savings may still be achievable through using LOBOs (Lenders Option Borrowers Option) loans and other market loans if these become available after the drying up of their supply during autumn 2008.

9.2 Due to short term borrowing rates being expected to be considerably cheaper than longer term rates, there are likely to be significant 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 their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a rebalancing of an authority's debt maturities towards a flattening of the maturity profile as in recent years there has been a skew towards longer dated PWLB.

Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

As average PWLB rates in some maturity periods are expected to be minimally higher earlier on in the financial year than later on, there should therefore be greater potential for making marginally higher interest rate savings on debt by doing debt restructuring earlier on in the year. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 7 above.

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

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

9.4 The ability to reschedule debt is limited as the Council only has one PWLB loan, which is at a very good long term rate.

9.5 All rescheduling will be reported to the Executive Board Sub-Committee at the meeting following its action.

10.0 MINIMUM REVENUE PROVISION POLICY STATEMENT 2010/11

10.1 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess their MRP for 2010/11 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

10.2 The major proportion of the MRP for 2010/11 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31st March 2010 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

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

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

A brief explanation of the Minimum Revenue Provision and the options available is contained in Appendix C.

11.0 CREDITWORTHINESS POLICY

11.1 This Council uses the creditworthiness service provided by Sector Treasury Services to assist in keeping a close watch on the credit status of the counter parties on the lend list. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies -

Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

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

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. The Council is satisfied that the daily update service provided by Sector helps it to monitor the level of security for its investments on a much closer basis. It is also a service which the Council would not be able to replicate using in house resources.

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

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

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

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

11.2 Other issues

Nationalised banks in the UK

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 have 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.

Blanket 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. It will be necessary to decide whether to rely on these blanket guarantees to authorise lending to banks covered by these guarantees and for which countries they are related.

UK banking system support package.

The UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. Again, it will be necessary to decide whether 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.

Banks eligible for support under the UK bail-out package: -

- Abbey
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

12.0 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

12.1 The Council uses Sector Treasury Services as its external treasury management advisers.

12.2 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.

13.0 TREASURY MANAGEMENT INDICATORS FOR 2010/11-2012/13

13.1 The treasury management indicators as set out in Appendix D to this report are relevant for the purposes of setting an integrated treasury management strategy.

14.0 ADOPTING THE CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT

14.1 The Council is also required to indicate that it has adopted the revised CIPFA code of practice on treasury management. The original 2001 code was adopted in March 2002 and Appendix E to this report summarises the changes contained in the new revised 2009 code.

14.2 It is recommended that the new code is adopted as best practice.

APPENDIX A

INTEREST RATE FORECASTS

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

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

1. INDIVIDUAL FORECASTS

Sector interest rate forecast – 23.11.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	0.50%	0.50%	0.75%	1.00%	1.50%	2.25%	2.75%	3.25%	3.50%	3.75%	4.25%	4.25%	4.50%
5yr PWLB rate	3.05%	3.20%	3.30%	3.40%	3.60%	3.85%	4.15%	4.55%	4.60%	4.80%	4.80%	4.85%	4.85%
10yr PWLB rate	4.00%	4.05%	4.15%	4.30%	4.45%	4.60%	4.80%	4.90%	5.00%	5.10%	5.10%	5.15%	5.15%
25yr PWLB rate	4.55%	4.65%	4.70%	4.80%	4.90%	5.00%	5.05%	5.10%	5.20%	5.30%	5.30%	5.35%	5.35%
50yr PWLB rate	4.60%	4.70%	4.75%	4.90%	5.00%	5.10%	5.15%	5.20%	5.30%	5.40%	5.40%	5.45%	5.45%

Capital Economics interest rate forecast – 18.1.10

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	3.15%	2.95%	2.65%	2.45%	2.45%	2.45%	2.45%	2.45%
10yr PWLB rate	4.45%	4.15%	3.65%	3.15%	3.15%	3.15%	3.15%	3.15%
25yr PWLB rate	4.75%	4.65%	4.35%	4.05%	3.95%	3.75%	3.75%	3.75%
50yr PWLB rate	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

UBS interest rate forecast (for quarter ends) – 30.10.09

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bank Rate	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%	2.50%	3.00%
10yr PWLB rate	3.90%	4.05%	4.40%	4.75%	4.90%	5.15%	5.40%	5.40%
25yr PWLB rate	4.45%	4.65%	5.00%	5.15%	5.40%	5.65%	5.90%	5.90%
50yr PWLB rate	4.55%	4.75%	5.10%	5.25%	5.50%	5.75%	6.00%	6.00%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury December 2009 – summary of forecasts of 23 City and 12 academic analysts for Q4 2009 and 2010. Forecasts for 2010 – 2013 are based on 21 forecasts in the last quarterly forecast – November 2009.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate			
	actual	Q4 2009	Q4 2010	ave. 2010	ave. 2011	ave. 2012	ave. 2013
Median	0.50%	0.50%	1.30%	0.70%	1.80%	3.00%	3.70%
Highest	0.50%	0.50%	2.30%	1.30%	3.30%	4.30%	4.60%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	1.40%

APPENDIX B

Economic Background

Introduction

- The credit crunch storm of August 2007 eventually fed through to the near collapse of the world banking system in September 2008. This then pushed most of the major economies of the world into a very sharp recession in 2009 accompanied by a dearth of lending from banks anxious to rebuild their weakened balance sheets. Many governments were forced to recapitalise and rescue their major banks and central banks precipitately cut their central bank rates to 0.10 – 1.00% in order to counter the recession.
- The long awaited start of growth eventually came in quarter 3 2009 in the US and the EU. However, there was disappointment that the UK failed to emerge from recession in quarter 3.
- Inflation has plunged in most major economies and is currently not seen as being a problem for at least the next two years due to the large output gaps and high unemployment putting a lid on wage growth. In many countries there have been widespread pay freezes in 2009 and these are likely to be persistent for some time.
- Deflation could become a threat in some economies if they were to go into a significant double dip recession.
- Asian countries, especially China, are buoying world demand through their own stimulus measures.
- There still needs to be a radical world rebalancing of excess savings rates by cash rich Asian and oil based economies and excess consumption rates in Western economies if the world financial system is not to avoid a potential rerun of this major financial crisis in years to come.
- Most major economies have resorted to a huge expansion of fiscal stimulus packages in order to encourage a fast exit from recession. This, together with expenditure on direct support provided to ailing banks, has led to a drastic expansion in government debt levels which will take many years to eliminate and to restore the previous health of national finances.

Two growth scenarios

- The current big issue is ‘how quickly will the major world economies recover?’ There is a sharp division of opinion on this question as set out below. The knock on effects on forecasts for interest rates can be seen in appendix 2 – UBS strong recovery, Capital Economics – weak recovery.

Strong recovery

- This is a normal cyclical recovery which will be strong in the major world economies. The US still has potential to add further fiscal stimulus in 2010 to ensure that strong recovery continues after the current round of stimulus measures end. Growth in the EU is likely to be strong in 2010 and not require such help.

The UK:

- GDP growth will almost get back to the long term average of about 2.5% in 2011 but is likely to peak in the first half of the year as inventory rebuilding and stimulus measures fade and fiscal contraction kicks in later in the year.
- The economy will rebalance with strong growth in exports and import substitution helped by strong recovery in the EU and the rest of the world.
- Sterling has depreciated by 25% since the peak in 2007 and is likely to stay weak.
- Consumer spending – only a mediocre recovery is expected due to a steady increase in the savings ratio from +5.6% in 2009 to about 8% in 2011 as consumers pay down debt or build cash balances. Consumer incomes will be held down by wage freezes and increases in taxation.
- House price recovery is expected to persist helped by a low Bank Rate for a prolonged period; the peak to trough fall in house prices is now expected to be no more than 20%. House prices to rise by about 6% in 2010, and 3% in 2011; mortgage approvals will rise back to the level of 75 - 80,000 per month needed to ensure a continuation of a trend of rising house prices.
- CPI inflation to peak @ 2.5% in early 2010 after the rise in VAT in January but then to fall to a trough near 1.5% in early 2011 and to stay below 2% for the rest of 2011.
- The current MPC attitude is one of hang on as long as possible before increasing Bank Rate. The aim of this would be to try to ensure that growth gets going at a decent rate and that Bank Rate gets back to 4 – 5% before the next recession and that all assets purchased through QE have been sold off by then. The first Bank Rate increase is expected in Q3 2009.
- If there is a change of Government in 2010 with a more aggressive fiscal approach then this could delay the timing of Bank Rate starting to go up.
- The fiscal deficit is 6.4% of GDP, about £90bn, which is expected to fall at £11bn p.a. over eight years at currently planned rates. This is similar to the peak deficit of 7% in 1990s which was remedied to a surplus of 1.6% in the space of 6 years helped by strong, steady economic growth of 3% p.a. supported by loose monetary policy that compensated for the fiscal squeeze.
- Gilt yields, especially longer term ones, are currently artificially low due to the Bank of England's Quantitative Easing operations. £200bn of gilts, commercial bonds and paper are being purchased under this

scheme which has inflated prices and depressed yields. Once this campaign ends, yields will inevitably rise but will also rise due to the huge level of issuance of new gilts to finance the fiscal deficit. Long gilt yields are therefore forecast to reach 6% during 2011.

- Gilt yields could rise higher if there was a hung Parliament in 2010 or if the fiscal situation deteriorates further.
- The major risk to this scenario would be a lack of supply of bank credit. However, it is felt that the Bank of England is on alert to ensure that this does not happen and would continue various measures to assist the expansion of credit.

Weak recovery

- The current economic cycle is not a normal business cycle but a balance sheet driven cycle. Over borrowed banks, corporates and consumers are focused on shrinking their levels of borrowing to more viable and affordable levels and this balance sheet adjustment will take several years to be effected. Repayment of debt will therefore act as a major head wind to the required increase in demand in the economy. Consequently there will only be weak economic recovery over the next few years after the initial sharp inventory rebuilding rebound fades. GDP growth is forecast to reach only +1.5% in 2011.
- Fiscal contraction will further dampen economic recovery driven by a strong political agenda to accelerate cuts in expenditure and increases in taxation after the general election in 2010.
- The consumer savings ratio will rise so as to eliminate over borrowing and to insure against people losing their jobs during this downturn. This will depress consumer expenditure, the main driver of the UK economy.
- Growth will also be hampered by a reduced supply of credit from weakened banks compounded by weak demand for credit.
- The eventual reversal of Quantitative Easing will take cash out of the economy and reduce demand in the economy.
- Unemployment is likely to rise to near to 3m in 2010 and take years to subside due to weak growth. High unemployment will reduce tax income and increase expenditure on benefits and the costs of local authority services.
- Inflation will not be a threat for several years as the current 6% output gap will take until 2014 to be eliminated.
- However, deflation is a major danger for some years: the major falls in manufacturing prices over the last 12 -18 months have still to feed through to the economy and then to impact wage deflation.
- CPI inflation will blip up over 2% in early 2010 but will then be on a strong downward trend to about -1% in 2011.
- There is no need for the MPC to change Bank Rate from 0.5% in 2010 or 2011 and possibly for 5 years as they will need to counter the fiscal contraction which will dampen demand in the economy.

- Long PWLB rates will FALL from current levels to near 4% in 2010 due to weak economic recovery and minimal inflation so that the real rate of return (net of inflation) on long gilts is healthy at these low levels

Sector view

- Sector recognises that at the current time it is difficult to have confidence as to exactly how strong the UK economic recovery will prove to be. Both the above scenarios are founded on major assumptions and research which could or could not turn out to be correct.
- Sector has adopted a more moderate view between these two scenarios outlined above i.e. a moderate return to growth.
- We do, however, feel that the risks that long term gilt yields and PWLB rates will rise markedly are high.
- There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas: -
    - degree of speed and severity of fiscal contraction after the general election
    - timing and amounts of the reversal of Quantitative Easing,
    - speed of recovery of banks' profitability and balance sheet imbalances
    - changes in the consumer savings ratio
    - rebalancing of the UK economy towards exporting and substituting imports
- The overall balance of risks is weighted to the downside i.e. the pace of economic growth disappoints and Bank Rate increases are delayed and / or lower
- There is an identifiable risk of a double dip recession and deleveraging creating a downward spiral of falling demand, falling jobs and falling prices and wages leading to deflation but this is considered to be a small risk and an extreme view at the current time on the basis of current evidence

APPENDIX C

What is a 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 and so such expenditure is spread over several years so as 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, which was previously determined under Regulation, and will in future be determined under Guidance.

Statutory Instrument 2008 no. 414 s4 lays down that:

“A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.”

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146, (as amended)

Along with the above duty, the Government issued new guidance in February 2008 which requires that a Statement on the Council’s policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council are legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to ‘have regard’ to the guidance therefore means that: -

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.
2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Options Available

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

APPENDIX D

Prudential Indicators

			2008/09	2009/10	2010/11	2011/12	2012/13
Affordability							
1.	Ratio of financing costs to net revenue stream (estimate) - General Fund	%		1.2	2.8	4.4	6.0
2.	Ratio of financing costs to net revenue stream (actual) - General Fund	%	-0.4				
3.	Incremental impact of capital investment decisions on the Council Tax	£		11.72	29..6	34.13	28.09
Capital Expenditure							
5.	Total capital expenditure (estimate) (see Note) - General Fund Note: These figures will be amended as further allocations and grant approvals are received.	£m		40.4	58.6	46.8	27.8
6.	Total capital expenditure (actual) - Actual	£m	38.5				
Capital Financing Requirement							
7.	Capital Financing Requirement (estimate) - General Fund	£m		75.1	99.9	134.7	158.2
8.	Capital Financing Requirement (actual) - General Fund	£m	60.3				
Treasury Management							
	Adopted CIPFA Code of Practice for Treasury Management						
9.	Authorised limit for external debt	£m		70.5	84.7	108.1	113.1
10.	Operational boundary for external debt	£m		65.5	79.7	103.1	108.1
11.	External debt (actual)	£m	40.7				
12.	Upper limit on interest rate exposure on fixed rate debt	%			75	75	75
13.	Upper limit on interest rate exposure on variable rate debt	%			75	75	75
14.	Maturity structure of borrowing as a percentage of fixed rate borrowing Under 12 months 12 months – 2 years 2 years – 5 years 5 years – 10 years 10 years and above	%			Lower / Higher 0 / 50 0 / 75 0 / 75 0 / 75 0 / 75		
15.	Total principal sums invested for periods longer then 364 days 1-2 years 2-3 years	% %			60 30	60 30	60 30
16.	Maturity Structure of new fixed rate borrowing in previous years		None				

REPORT TO: Executive Board Sub-Committee

DATE: 8th September 2011

REPORTING OFFICER: Operational Director – Finance

TITLE: Treasury Management 2011/12
1st Quarter: April - June

1.0 PURPOSE OF REPORT

1.1 The purpose of the report is to update the Sub-Committee about activities undertaken on the money market as required by the Treasury Management Policy.

2.0 RECOMMENDED: That the report be noted

3.0 SUPPORTING INFORMATION

The following has been provided by Sector, the Council's Treasury Management advisors:

3.1 Economic Background

The second quarter of 2011 saw:

- The economic recovery struggled to regain momentum;
- Conditions on the high street deteriorated;
- Mixed signals on the strength of the labour market recovery;
- Public sector borrowing come out disappointingly high;
- The near-term outlook for Consumer Prices Index (CPI) inflation deteriorated further;
- The Monetary Policy Committee (MPC) moved away from raising interest rates;
- UK equities stayed broadly flat over the quarter and gilt yields fell;
- Economic growth slowed in the US and euro-zone.

The economic recovery had been struggling to regain momentum after underlying activity more or less stagnated between October and March. The additional bank holiday for the Royal Wedding pulled down both industrial and services output in April. But the CIPS/Markit business surveys have failed to pick up by much since. An average of the surveys over the last three months pointed to quarterly GDP growth in Q2 of just 0.3% - less than half its trend rate.

The industrial recovery appears to have lost momentum quite quickly. The CIPS/Markit manufacturing survey has fallen to a level consistent with falls in manufacturing output. The output expectations balance of the CBI industrial trends survey has fallen more modestly, but has nonetheless dropped for the past three months in a row.

Meanwhile, the consumer outlook has darkened. The pick-up in the consumer sector seen during the spring appears to have been only temporary, reflecting the good weather and extra bank holiday. Retail sales volumes fell in May, more than reversing April's increase. The CBI's distributive trades survey fell in June. And a number of well-known retailers have recently fallen into administration.

Consumers appear to be reacting to the squeeze on their real incomes. Household real disposable incomes fell by 0.8% in Q1. Inflation is outpacing average earnings by about 2.5%. Consumer confidence also fell back in June and remains consistent with further falls in consumer spending.

Meanwhile, the news on the labour market had been mixed. The Workforce Jobs measure of employment rose strongly in Q1. But the timelier Labour Force Survey measure flattened off in April and May. And the number of job vacancies continued to fall throughout the quarter. The claimant count measure of unemployment also continued to rise over the last three months. This only partly reflected a rise in the number of lone parents claiming Jobseeker's Allowance due to recent benefit changes.

The housing market continued to tread water. The number of mortgage approvals for new house purchase was broadly unchanged over the quarter at a very low level of just 46,000 or so. House prices also remained broadly flat. The Nationwide index ended the second quarter at about the same level as it ended the first.

Meanwhile, net trade looked unlikely to provide as big a contribution to GDP growth in Q2 as it did in Q1. Net trade boosted quarterly Gross Domestic Product (GDP) growth by some 1.4% in Q1. However, the trade deficit was unchanged in April compared to March.

The weakness of the economy appears to be having some adverse effect on the public finances. Borrowing in the first two months of the fiscal year totalled £27.4bn, compared to last year's £25.9bn. It is early days but, at this rate, borrowing will overshoot the Office for Budget Responsibility's (OBR) Budget full-year forecast of £122bn.

Oil prices rose but then fell back during the quarter, and so ended Q2 at $113 per barrel, close to the level seen at the end of Q1. Agricultural prices fell sharply over the past quarter.

But the near-term outlook for inflation had deteriorated further. Although CPI inflation held steady at 4.5% in May, it now looks likely to rise to 5.5% or even higher within the next few months. Food price inflation is likely to rise further. And Scottish Power announced in June a 19% rise in gas prices and 10% rise in electricity prices to take effect in August. Other utility suppliers are likely to follow suit.

Households' inflation expectations rose sharply in June. But so far, there are no signs of any pick-up in pay growth. The median pay settlement was unchanged at 2.5% in May.

Most Monetary Policy Committee members still think that the rise in inflation will only be temporary and that inflation will fall back sharply next year. So despite the worsening of the near-term inflation outlook, the weakness of the activity data has pushed most members further away from an interest rate rise.

Some members have even started to discuss the prospect of giving the economy more support. Admittedly, the hurdle for more quantitative easing will be quite high. However, it is certainly possible if the economy remains as weak as we expect.

In financial markets, the FTSE 100 finished the quarter at around 5,950 – about the same level as at the end of the first quarter. This was broadly in line with international stock markets – the S&P500 was also little changed over the period. Ten year gilt yields fell from 3.69% to 3.38% on the back of a drop in interest rate expectations. At the end of March, markets were expecting interest rates to have risen by this July. But now they expect rates to stay on hold until July next year. Meanwhile, sterling was broadly unchanged against the dollar at about $1.60, and fell only a touch against the euro.

In the US, the recovery also appears to have lost a significant amount of momentum. The ISM manufacturing index fell sharply in May and reversed only a fraction of this drop in June. Payrolls employment rose by a disappointing 54,000 in May. Meanwhile, the euro-zone economy expanded at a healthy pace in Q1, but recent falls in most leading indicators suggest that growth is slowing there too. Germany has continued to outperform the rest of the region. The risk of an imminent Greek disaster eased temporarily after an initial draft agreement on a second Greek bailout package but European policymakers' inability to deal with the crisis quickly and effectively created further uncertainty and volatility.

3.2 Economic Forecast

The following forecast has been provided by Sector:

	NOW	Sep11	Dec11	Mar12	Jun12	Sep12	Dec12	Mar13	Jun13	Sep13	Dec13	Mar14
Sectors Bank Rate View	**0.50%**	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.00%	2.25%	2.50%
5yr PWLB	**2.85%**	2.90%	3.00%	3.20%	3.40%	3.50%	3.50%	3.60%	3.80%	4.00%	4.20%	4.30%
10yr PWLB	**4.16%**	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%	5.00%	5.10%
25yr PWLB	**5.08%**	5.10%	5.20%	5.30%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%
50yr PWLB	**5.06%**	5.10%	5.20%	5.30%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%

- The Sector central forecast is for a June 2012 first increase in Bank Rate but with reservations that it could well slip back in time, unless there is some good news on the UK economic recovery before then.

- Sector has undertaken its normal quarterly review of interest rate forecasts after the issue of the Bank of England's (BoE) quarterly Inflation Report. The key Bank of England comments are shown below:

  - Mervyn King said after the May Inflation Report was published that Bank Rate cannot stay down indefinitely' but this does not equate to saying 'there will be a first increase in Bank Rate in November 2011'. Financial markets have over-reacted to this statement (Sector have issued a revised interest rate forecast which suggests the first rate rise will be in June 2012 as opposed to November 2011).
  - Continuing wage freezes / low pay settlements
  - BoE forecasts for the speed of recovery and of increases in GDP growth rate have consistently been over optimistic since the recession started in 2009
  - CPI will blip up in 2011 due to temporary supply side shock factors but these will drop out within 12 months - as will VAT increases
  - Unless the output gap is closed (unlikely for some considerable time) inflation will eventually fall below target
  - CPIY (CPI less the effects of increase in indirect taxation) has been at or below 2% during 2010 and under 2.9% in 2011

SUMMARY OUTLOOK

- The key question is how quickly, and strongly, will the UK economy respond to the positive stimulus from low Bank Rate, quantitative easing and the devaluation of sterling?

- Negative growth of -0.5% in Q4 2010 was a huge shock; +0.5% (quarter on quarter) in Q1 2011 meant that growth had been flat for six months. A marginal upgrading of Q1 growth figures will have only a marginal effect on the big picture for the UK but there is considerable uncertainty as to how the UK economy will evolve in the coming months.

- US Q1 growth of only 1.8% (on an annualised basis) was also a disappointment despite non-farm payroll data showing improvement.

- China and India have embarked on a major thrust to cool their over-heating economies and so may depress the rate of world economic growth.

- An anaemic economic recovery is probably the most likely outcome in the UK and US, after the initial rebound in 2010, for the next three to four years; recovery is likely to be slower and more protracted than normal business cycle recoveries as this is a financial crisis recovery where lack of credit is still stifling growth.

- The Bank of England is likely to determine that further increases in CPI in 2011, towards 5%, as being due to one off factors that will drop out of the index within 12 months, so underpinning the view that inflation will be back to near target within a two to three year time horizon.

- This does assume that raised inflation expectations do not feed through into a significant increase in the general level of wage settlements.

- There has been a significant erosion of the confidence of financial markets in the EU handling of the peripheral debt crisis. There is now a major and escalating risk that the Greek, Irish, Portuguese debt crisis may not be contained and could lead to debt restructurings that could do significant damage to banks which already have weakened balance sheets. It is worth noting that many western governments have already exhausted their capacity to increase government debt to again bail out banks further damaged by any such future events and to counter the dampening of economic growth that would follow.

UPSIDE RISKS TO CENTRAL FORECAST

- Bank Rate cuts do finally succeed in feeding through to stimulate a strong economic recovery.

- A major increase in UK exports due to the circa 20% depreciation of Sterling over the last two years and import substitution by UK produced goods and services - assuming a reasonably strong economic recovery in US, EU and emerging markets.

- Corporate profitability has improved considerably since the recession due to cost cutting; many larger corporate balance sheets are now awash with cash. This could fuel an increase in investment expenditure and also M&A (merger and acquisitions) activity i.e. drive share prices higher and give investors a feel good factor (to spend more?)

DOWNSIDE RISKS TO CENTRAL FORECAST

- Chinese and Indian economies are now over-heating; Chinese authorities spooked by inflation over 5%. The Chinese central bank has raised the central rate four times and increased bank reserve requirements six times since October 2010 to curtail bank credit creation capacity. This could lead to increased volatility or an outright fall in commodity prices.

- UK emerging market funds are finding it difficult to place the huge investment cash flows they are receiving; Chinese investors with surplus cash are investing it in property and shares as if it is a one way bet! Ideally, there needs to be a rebalancing of Chinese spending on retail sales as opposed to the creation of asset price bubbles in property and shares.

- US economy has disappointed in Q1 2011 limping along at 1.8% annual growth rate after a strong Q4 2010 at 3.1%.

- US (and UK) have exhausted their capacity for any further fiscal stimulus for their economies.

- US is still not even on the starting line for dealing with cutting back a massive annual fiscal deficit; cut backs to come are likely to dampen the economy further.

- US: banks have major risk exposure to a fraught housing market where house prices have gone down 8.2% in the 12 months to April 2011, have fallen 29.5% since the peak in June 2006, where 29.5% of mortgages are now in negative equity and there is no imminent turn around in sight for the housing market.

- Peripheral European economies' crisis requires the European Central Bank to adopt a more pragmatic stance to debt restructuring: the longer the delay, the bigger the potential fallout.

- UK consumer confidence at very low levels whilst major cuts in Government expenditure and public sector jobs still to feed through fully into the economy and to dampen growth over the next few years.

- Despite the private sector creating more jobs than the public sector is cutting, the high current total level of unemployment of around 2.5m means that it will take several years to reduce total unemployment down to pre recession levels.

- No significant growth in personal disposable income likely for a couple of years due to:

    - Continuing wage freezes / low pay settlements;
    - Inflation exceeding wage increases so disposable income is being eroded;
    - Increases in taxation;
    - Mortgagors coming off cheap fixed rate mortgage deals onto standard variable rates.

- House prices have fallen to their lowest level since July 2009 and no turn around is in sight in the current economic climate.

- Consumers are focused on reducing over-borrowing by repaying debt rather than spending and are fearful of eventual increases in Bank Rate sending mortgage standard variable rates (SVRs) up in parallel; rebuilding of consumer balance sheets will increase the savings ratio and depress consumer expenditure.

- Banks are still heavily focused on rebuilding their balance sheets – RBS and Lloyds still have massive maturing wholesale borrowing to refinance; the Bank of England Special Liquidity Scheme (SLS) ends in Jan 2012; the BoE has lent £185bn to banks and building societies which must be repaid. The BoE has indicated there will be no extension of this timeframe for the SLS.

- Eventual reversal of Quantitative Easing by selling gilts etc will take cash out of the economy and restrict credit growth; gilt sales will need to be sensitively timed considering the huge level of gilt sales already planned just to fund each year's deficit.

3.3 Short Term Rates

The bank base rate remained at 0.5% throughout the quarter.

		April		May		June	
	Start	Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	0.58	0.58	0.59	0.59	0.59	0.59	0.60
1 Month (Market)	0.62	0.62	0.62	0.62	0.63	0.62	0.63
3 Month (Market)	0.82	0.82	0.82	0.82	0.83	0.82	0.83

3.4 Longer Term Rates

		April		May		June	
	Start	Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	1.60	1.60	1.59	1.59	1.58	1.58	1.58
10 Year (PWLB)	4.78	4.80	4.67	4.54	4.50	4.47	4.50
25 Year (PWLB)	5.31	5.32	5.22	5.19	5.13	5.17	5.22

Market rates are based on LIBOR rates published at the middle and end of each month. PWLB rates are for new loans in the “lower quota” entitlements.

3.5 Temporary Borrowing/Investments

Turnover during period

	No. Of Deals Struck	Turnover £m
Short Term Borrowing	10	26.00
Short Term Investments	37	76.69

Position at Month End

	April £m	May £m	June £m
Short Term Borrowing	14.00	14.00	10.00
Short Term Investments	33.85	40.80	40.11

Investments increased during the quarter as a result of delays in the capital programme.

Investment Income Forecast

The forecast income and outturn for the quarter is as follows:

	Cumulative Budget £’000	Cumulative Actual £’000	Cumulative Target Rate %	Cumulative Actual Rate %
Quarter 1	19	34	0.46	1.09
Quarter 2	37			
Quarter 3	64			

Quarter 4	90			

The actual rate exceeds the benchmark rate. This is due to the management of cash deposits around the planned delivery of the capital programme and most notably the acquisition of land for the Mersey Gateway project.

The target rate is based on the 7-day LIBID rate. For comparison purposes the 1 month average rate was 0.50%, 3 month rate was 0.70% and the 6 month rate was 0.99%.

3.6 New Borrowing

Due to the underlying need to borrow for capital purposes, new external borrowing of £20.0m was undertaken from the PWLB and the market.

The borrowing consisted of:

Source	Value (£m)	Rate (%)
PWLB	10,000	2.21
Market	10,000	1.50

It is anticipated that further borrowing will be undertaken during this financial year.

3.7 Policy Guidelines

The Treasury Management Strategy Statement (TMSS) for 2011/12, which includes the Annual Investment Strategy, was approved by the Council on 2nd March 2011. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector: this applies in particular to nationalised and semi nationalised UK banks.

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

There approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2011.

4.0 POLICY IMPLICATIONS

4.1 None

5.0 OTHER IMPLICATIONS

5.1 None

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 **Children and Young People in Halton**

None

6.2 **Employment, Learning and Skills in Halton**

None

6.3 **A Healthy Halton**

None

6.4 **A Safer Halton**

None

6.5 **Halton's Urban Renewal**

None

7.0 RISK ANALYSIS

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no issues under this heading.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

9.1 There are no background papers under the meaning of the Act.

Agenda Item 3e

REPORT TO:	Executive Board Sub-Committee
DATE:	8th September 2011
REPORTING OFFICER:	Strategic Director – Policy & Resources
SUBJECT:	Discretionary Non-Domestic Rate Relief
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is for members to consider 4 applications for discretionary non-domestic rate relief, under the provisions of the Local Government Finance Act 1988.

2.0 RECOMMENDATIONS: That

(1) Under the provisions of Section 47, Local Government Finance Act 1988, discretionary rate relief be granted to the following organisation at the percentage indicated, for the period from 1st April 2011 or the commencement of liability, whichever is the later, to 31st March 2013:

Halton Haven Hospice	**20%**
SHAP Ltd	**20%**

(2) In respect of the following organisation, it is also recommended that they should be granted discretionary rate relief for the backdated element of the charge from 1st April 2010 or the commencement of liability, whichever is the later:

Halton Haven Hospice	**20%**

(3) Under the provisions of Section 47, Local Government Finance Act 1988, the following application for discretionary rate relief be refused:

Runcorn Golf Club Ltd	**20%**
Widnes Golf Club	**20%**

3.0 SUPPORTING INFORMATION

3.1 Under the provisions of Section 47 of the Local Government Finance Act 1988, the Authority is allowed to grant discretionary rate relief to organisations that are either a charity or a non-profit making organisation. This relief may also be awarded to Community Amateur Sports Clubs. A summary of the applications follows and a list of the associated figures are attached in Appendix 1.

<u>Halton Haven Hospice</u>
Unit 18, Expressway Industrial Estate, Pimlico Road, Runcorn

Halton Haven is an independent hospice providing palliative care for 15 in-patients and day care for another 50 patients. The organisation provides extensive care for the terminally ill and also offers respite facilities to the community. Although they will not exclude affected parties, their services are intended to provide assistance to the residents of Halton.

The application is in respect of a store, which is used to support the retail operation, in order to raise funds by the sale of donated goods to the public, in the organisation's shops. The premises were occupied with effect from 22nd February 2011.

As they are a registered charity, 80% mandatory rate relief has already been awarded but their application also includes a request for 20% discretionary rate relief. The hospice has previously been awarded the additional relief, in respect of 57-61 and 136 Widnes Road, Widnes, Unit 21, Expressway Industrial Estate and 25 High Street, Runcorn.

Cost to Taxpayer (75%) 2011/12 £649.50

<u>Runcorn Golf Club Ltd</u>
Clifton Road, Runcorn

Runcorn Golf Club Ltd has become registered as a Community Amateur Sports Club (CASC), with effect from 23rd February 2011. The club provides a not for profit sports facility, which is available to the local community.

The organisation supports and promotes sporting activity within Halton and the surrounding areas, with the main emphasis focusing on golf by the provision of the course and associated facilities.

As a registered CASC, the organisation qualifies for mandatory rate relief and has applied for the additional relief. The organisation was previously awarded 10% discretionary rate relief but this was prior to the club attaining CASC status and no further relief had been granted at this time. A similar award would now cost the Authority triple the amount of the previous sum, due to the alteration to the rate of the applicable contribution, following this change in circumstances.

Cost to Taxpayer (75%) 2011/12 £2,857.80

<u>SHAP Ltd</u>
35 Queens Avenue, Widnes

SHAP Ltd provides a range of housing services across Merseyside, including the provision of accommodation to young homeless people, support to the victims and witnesses of hate crime and domestic violence. They also offer specialist services to assist with drug and alcohol issues and provide advocacy services.

The premises are used as an office and also provide interview facilities for the organisation. Additional use is currently being considered and is under review.

As a registered charity, 80% mandatory rate relief has already been awarded but the application includes a request for the additional relief. SHAP Ltd has previously been awarded the 20% discretionary rate relief for a similar operation at 5 Queens Avenue, Widnes.

Cost to Taxpayer (75%) 2011/12 £ 370.22

<u>Widnes Golf Club</u>
Highfield Road, Widnes

Widnes Golf Club has also registered as a CASC, with the status being attained on 19th May 2011. The organisation aim to provide and maintain a golf course and club house for the use of the local population.

The club provides a sporting facility which supports the playing of golf and the other associated social activity within Widnes. The provision of this course is intended to benefit the residents of the borough and the surrounding areas.

As a registered CASC, the organisation qualifies for mandatory rate relief and has applied for the additional relief. The organisation was previously awarded 10% discretionary rate relief but this was prior to the club attaining CASC status and no further relief had been granted at this time. A similar award would now cost the Authority triple the amount of the previous sum, due to the alteration to the rate of the applicable contribution, following this change in circumstances

Cost to Taxpayer (75%) 2011/12 £ 2,638.19*

* Based on liability as a CASC

4.0 POLICY IMPLICATIONS

4.1 Members are required by the regulations to consider each application on its own merit. Any recommendations provided are given **for guidance only** and are consistent with previous decisions, where applicable, and Council policy.

5.0 OTHER IMPLICATIONS

5.1 75% of any discretionary rate relief granted to organisations receiving mandatory rate relief must be met by the Council Taxpayer, whilst 25% must be met if mandatory rate relief has not been awarded. Appendix 1 identifies the cost to the Council Taxpayer for each application. The applicant provides education to the community, which is consistent with the Council's Corporate Plan.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 **Children and Young People in Halton**
The services of SHAP Ltd are particularly aimed at young people.

6.2 **Employment, Learning and Skills in Halton**
None Applicable.

6.3 **A Healthy Halton**
None applicable.

6.4 **A Safer Halton**
None applicable.

6.5 **Halton's Urban Renewal**
None applicable.

7.0 RISK ANALYSIS

7.1 There are no key risks associated with the proposed action.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 All of the applicants offer their services to all sections of the community, without any prejudice.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D

OF THE LOCAL GOVERNMENT ACT 1972

9.1	**Document**	**Place of Inspection**	**Contact Officer**
	Application forms and supporting evidence	Kingsway House, Caldwell Road, Widnes	Phil Murphy, Business Rates Manager

APPENDIX 1

Ratepayer	Address	Annual Rates 2011/12 £	Actual Rates Liability 2011/2012 £	Mandatory Rate Relief Awarded	Actual Rates Payable 2011/2012 £	Discretionary Rate Relief Claimed	Annual Cost of Relief to HBC 2011/2012 £	Actual Cost of Relief to HBC 2011/2012 £
Halton Haven Hospice	Unit 18, Expressway Industrial Estate Runcorn	4,330.00	4,330.00	80%	866.00	20%	649.50	649.50
Runcorn Golf Club Ltd	Clifton Road, Runcorn	19,052.00	19,052.00	80%	3,810.40	20%	2,857.80	2,857.80
SHAP Ltd	35 Queens Ave, Widnes	2,468.10	2,468.10	80%	493.62	20%	370.22	370.22
Widnes Golf Club	Highfield Road, Widnes	20,242.75	17,587.96*	80%	3,517.59*	20%	3,036.41*	2,638.19*

* Based on liability as a CASC

Agenda Item 4a

REPORT TO:	Executive Board Sub Committee
DATE:	8th September 2011
REPORTING OFFICER:	Strategic Director, Communities
SUBJECT:	Boardwalk Extra Care Housing Scheme
WARD(S):	Riverside

1.0 PURPOSE OF REPORT

1.1 To note urgent action taken to approve the provision of revenue support through the Supporting People programme for 90 units of extra care housing at West Bank, Widnes being developed by Cosmopolitan Housing Association.

2.0 RECOMMENDATION: That

i) the Board notes that after consultation with the Leader and Portfolio Holders for Neighbourhood, Leisure & Sport and Health & Adults, the Chief Executive has under delegated powers (Matters of Urgency, Constitution) determined that subject to the 90 units of extra care accommodation being constructed by Cosmopolitan Housing Association, the Council agree to provide funding through the Supporting People programme for relevant housing support costs at an estimated cost of £100,000 per annum.

ii) the Council enter into the necessary legal agreements to give effect to the reported decision.

3.0 SUPPORTING INFORMATION

3.1 The development of extra care housing is a strategic priority for the Council given the ageing profile of the local population. Housing Associations were asked to take this into account when formulating their development proposals for submission to the Homes and Communities Agency (HCA) under the 2011/15 National Affordable Housing Programme.

3.2 The HCA has now notified Housing Association bidding consortia of the amounts of grant awarded to them and the number of dwellings that must be developed in return, and invited them to enter into framework delivery contracts. Prior to doing this Housing Associations that are proposing to develop supported housing schemes are checking with local authorities whether or not revenue support will be available. Only schemes which have support will have their funding confirmed and housing associations have been asked to secure confirmation as soon as possible.

3.3 Not all Housing Associations have shared the full detail of their bids with the Council but from discussion prior to HCA bids being submitted, officers were aware of the following extra care proposals being developed.

Housing Association	Location	Number of units
Cosmopolitan	West Bank	90
Plus Dane	Castlefields	62
Riverside	Halton Brook	45

3.4 The Council has been made fully aware of the detailed proposals surrounding the Cosmopolitan development. It has now been confirmed that Plus Dane will not be proceeding with their proposal, but at the time of writing Riverside were unable to confirm whether or not their scheme was to be included in their revised offer to the HCA. The proposals from Riverside are unclear and given the urgency to secure the necessary HCA funding there is the potential danger that the larger site may not be supported if the Council does not make its intentions clear.

3.5 It is therefore proposed that the Cosmopolitan proposal to develop 90 extra care housing flats at the Boardwalk, West Bank, Widnes be supported by the Council. Following consultation, planning permission for extra care housing was approved by the Council's Development Control Committee on 12 April 2010.

3.6 In conjunction with the Scheme of Delegation and Procurement Standing Orders namely 1.8.1, emergency procedures, the Chief Executive, in consultation with the Leader of the Council and relevant portfolio holders, considered and supported the proposals in this report before the formal meeting of Executive Board Sub Committee on 8th September 2011. The decisions are reported to today's meeting.

4.0 POLICY IMPLICATIONS

4.1 The development of extra care housing is a stated policy priority in the Council's Housing and Supporting People strategies.

5.0 FINANCIAL IMPLICATIONS

5.1 The development represents a significant capital investment, funded jointly by the HCA and Cosmopolitan.

5.2 The housing support costs of approximately £100,000 will be met from the Council's Supporting People programme, and the cost of care packages for eligible residents will continue to be met by the Council from the Community Care budget as it would irrespective of where they lived. This therefore does not constitute a key decision within the context of the budgetary standing orders. Provision will need to be provided from within existing budgets, however, extra care housing has been identified as a strategic priority to support vulnerable residents of Halton.

5.3 Cosmopolitan has agreed that it will offer the Council 100% nomination rights against the new dwellings so the Council can ensure the scheme provides accommodation for those for whom it is intended. If this report is supported detailed contracts would be drawn up between the relevant partners.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 **Children and Young People in Halton**

None identified.

6.2 **Employment, Learning and Skills in Halton**

The construction stage of the scheme will therefore provide training and employment opportunities, and the subsequent provision of care and support services at the scheme will provide permanent employment opportunities for local people.

6.3 **A Healthy Halton**

Extra care housing has the potential to offer many health benefits to older people, which have been set out in some detail in earlier reports.

6.4 **A Safer Halton**

None identified.

6.5 **Halton's Urban Renewal**

This site (the former Cemex site) has been derelict for some years and a development of this quality would significantly enhance the physical environment, and accord with the West Bank SPD.

7.0 RISK ANALYSIS

7.1 If the Council does not confirm its position as soon as possible, there is the possibility that the HCA will withdraw its proposal to Cosmopolitan.

8.0 EQUALITY AND DIVERSITY ISSUES

8.0 None identified.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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