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Our ref: DT/CL
Your ref:

Date: 12 February 2014

Dear Councillor,

Finance and Management Committee

A Meeting of the **Finance and Management Committee** will be held in the **Council Chamber**, on **Thursday, 20 February 2014 at 18:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**
Councillor Wheeler (Chairman), Councillor Mrs. Watson (Vice-Chairman) and
Councillors Jones, Lemmon, Murray, Smith and Watson.
Labour Group
Councillors Bell, Rhind, Richards, Southerd, Taylor and Wilkins.

AGENDA

Open to Public and Press

- 1** Apologies
- 2** To receive the Open Minutes of the Committee held on 17th Oct 2013 and 5th Dec 2013.
- 3** To note any declarations of interest arising from any items on the Agenda
- 4** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6** Reports of Overview and Scrutiny Committee

Unconfirmed Minutes of Overview and Scrutiny Committee **5 - 7**
- 7** Final Budget Proposals 2014-15 and Financial Plan to 2019 **8 - 33**
- 8** Treasury Management Strategy and Prudential Indicators 2014-15 **34 - 58**
- 9** Audit Sub Committee **59 - 64**
- 10** Work Programme **65 - 66**

Exclusion of the Public and Press:

- 11** The Chairman may therefore move:-
That in accordance with Section 100 (A) of the Local Government Act 1972 the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.

- 12** To receive the Exempt Minutes of the Meeting held on 5th December 2013.
Details
- 13** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.
Details
- 14** Review of Land Charges Function - Consultation Feedback (Paragraph 1)
- 15** Premises at Walton on Trent (Paragraph 3)
- 16** Land at Linton (Paragraph 3)
- 17** Single Status/Job Evaluation Update (Paragraph 1)
(Report to be circulated separately).
- 18** Restructure of Legal & Democratic Services (Paragraph 1) (Report to be circulated separately).

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	20TH FEBRUARY 2014	CATEGORY: DELEGATED
REPORT FROM:	CHAIR OF OVERVIEW & SCRUTINY COMMITTEE	OPEN
MEMBERS' CONTACT POINT:	LISA KINSEY 595722 lisa.kinsey@south-derbys.gov.uk	PARAGRAPH NO: N/A DOC: O&S
SUBJECT:	UNCONFIRMED MINUTES OF OVERVIEW AND SCRUTINY COMMITTEE - 22ND JANUARY 2014 & 12 FEBRUARY 2014	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

- 1.1 That the unconfirmed Minutes of the Overview & Scrutiny Committee Meeting held on 22nd January and 12th February 2014 are received.

2.0 Purpose of Report

- 2.1 To receive the Unconfirmed Minutes of the Overview & Scrutiny Committee Meeting held on 22nd January and 12th February 2014.

3.0 Detail

- 3.1 The Open Minutes of the Overview & Scrutiny Committee Meeting held on 22nd January 2014 are attached at Annexe 'A'. The Open Minutes of the Overview and Scrutiny Committee Meeting held on 12th February 2014 (to be circulated separately).

4.0 Financial Implications

- 4.1 As detailed in the Minutes.

5.0 Corporate/ Legal/ Employment Implications

- 5.1 See Minutes.

6.0 Community Implications

- 6.1 See Minutes.

7.0 Background Papers

- 7.1 See Minutes.

OVERVIEW AND SCRUTINY COMMITTEE

22nd January 2014

PRESENT:-

Conservative Group

Councillor Mrs. Plenderleith (Chairman), Councillor Atkin (Vice-Chairman), Mrs. Hood and Mrs Patten.

Labour Group

Councillors Bambrick, Dunn and Pearson.

OS/22. **APOLOGY**

An apology for absence from the Meeting was received from Councillor Mrs. Mead (Labour Group).

OS/23. **BUDGET REPORT 2014/15**

A copy of the budget report for 2014/15, which had recently been considered by the Finance and Management Committee, had been circulated. This was accompanied by a presentation from the Director of Finance & Corporate Services, who initially took Members through the recommendations approved at the earlier Policy Committee. The presentation focused on a number of key areas, the first being the financial settlement from the Government for 2014/15. He described the factors which had previously been taken into account in reaching this settlement and how it was changing. The settlement was based on three areas, these being the Revenue Support Grant, Retained Business Rates and a New Homes Bonus. Details were also provided of tariff arrangements where monies collected by the Authority would be returned to the Government for redistribution, linked to a safety net system associated with the loss of business rates. Members asked whether business rates were ring fenced and it was confirmed that the Council's share forms parts of its core funding. It was also asked who sets the business rates and this comes from the Regional Valuation Office. A number of graphs were included within the presentation showing the financial projections going forward.

Next, consideration was given to the Medium Term Financial Plan with slides showing the projected reserve balance and the reasoning's behind the recommendations for savings of £300,000 per annum. It was also noted that further savings may need to be identified within the next few years. A slide showed spending changes from reduced income and cost pressures, this included the costs incurred from the recent Local Plan consultation and from a deficit in the pension fund. Members asked questions on the risks and pressures regarding the 85 year rule for pensions being scrapped and if the County Council has a separate deficit to the Local Authority. Examples were given of the increasing costs which included maintenance and Utility costs of

the Civic Offices and the Depot. It was acknowledged that the Medium Term Financial Plan was a projection, but it gave a clear guide showing the direction of travel of the Authority's finances. There was some limited time available to address the identified problems.

It was agreed that The Director of Finance and Corporate Services give a verbal update on Pensions at the next Overview and Scrutiny Committee.

The Committee then gave consideration to the level of Council Tax. It was noted that the Government would provide a specific grant where an authority froze the level of Council Tax for 2014/15, equivalent to a 1% increase, payable for two years. It was noted that the Government can step in if the local Authority go over a 2% increase in Council Tax, thereby triggering the requirement for a referendum to be held. The Director of Finance and Corporate Services responded to questions from Members.

Finally a summary of the report was given and confirmed that the starting position was good as the situation was being addressed early but the reduction in resources was not sustainable. He then responded to questions from Members. The Committee thanked the Director of Finance and Corporate Services for the report and presentation.

The Committee accepted the report.

MRS. A. PLENDERLEITH

CHAIRMAN

The Meeting terminated at 6.50 p.m.

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	20th FEBRUARY 2014	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/budget round 201415/final proposals/final budget proposals report1415
SUBJECT:	FINAL BUDGET PROPOSALS 2014/15 and FINANCIAL PLAN to 2019	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That a Council Tax Level and Band D equivalent rate for 2014/15 is recommended to Council on 3rd March 2014.
- 1.2 That estimated net General Fund Revenue Expenditure totalling £11,022,455 for 2013/14 (revised) and £10,917,371 for 2014/15 is recommended to Council on 3rd March 2014.
- 1.3 That the Medium-term Financial Plan to 2019 on the Council's General Fund Revenue Account as detailed in **Appendix 1** is approved.
- 1.4 That the financial projection on the Housing Revenue Account (HRA) to 2024 as detailed in **Appendix 2** is approved.
- 1.5 That a Pensions Reserve be set-aside and funds transferred from the General Fund and Housing Revenue Accounts in 2014/15, in accordance with the reduction in pension contributions as detailed in the Report.
- 1.6 That the 5-year capital investment and financing plan to 2019 as detailed in **Appendix 3** is approved.
- 1.7 That the Councils estimated National Non-Domestic Rate Return (NNDR 1) for 2014/15 showing retained business rates (before the tariff) of £8.43m is noted.
- 1.8 That on-going budget savings of £175,000 are identified and taken out of the current Base Budget ahead of the 2015/16 Budget Round.
- 1.9 That the report of the Council's Section 151 (Chief Finance) Officer under Section 25 of the Local Government Act 2003 is noted.

2.0 Purpose of the Report

- 2.1 To detail the Council's final budget proposals for 2014/15 and medium term financial projections on its main revenue and capital accounts. This includes an assessment of the overall budget and level of reserves as required by the Local Government Act 2003. The proposals will form the basis of setting the Council Tax for 2014/15 by Council on 3rd March 2014.
- 2.2 The Council's overall proposed base budget for 2014/15 and projected medium-term financial position was reported in detail to the Committee on 16th January 2014 (details are available at: <http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1645/Committee/322/Default.aspx>)
- 2.3 This report does not repeat those details but firms up the position following a period of scrutiny and consultation, together with the effect of some changes since January. These changes, which are detailed in **Section 3**, include:
- Minor budget amendments
 - Additional grant following confirmation of the Financial Settlement
 - Pension contributions
 - Apportionment of central costs between the HRA and General Fund
- 2.4 The remaining issue outstanding is the recommended level of Council Tax for 2014/15 and this is detailed within the report.
- 2.5 The report also provides an overview of the Housing Revenue Account and the 10-year financial projection that was considered and approved by the Housing and Community Services Committee on 6th February 2013. This included the rent increase for 2014/15.
- 2.6 The report is divided into the following sections.
- Section 3: General Fund Revenue Account, including Council Tax
 - Section 4: Housing Revenue Account
 - Section 5: Capital Investment
 - Section 6: Report of the Chief Finance Officer under Section 25 of the Local Government Act 2003

Appendices

- *Appendix 1 – Projected General Fund Revenue Account*
- *Appendix 2 – Projected Housing Revenue Account*
- *Appendix 3 – Capital Investment Programme*
- *Appendix 4 – Apportionment of Central Costs between the General fund and HRA*
- *Appendix 5 – List of Earmarked Reserves and Funds*

3.0 General Fund Revenue Account

Position in January

- 3.1 As reported in January, the Council's base budget and Medium Term Financial Plan (MTFP) was reviewed ahead of 2014/15. This took account of the Local Government Financial Settlement for 2014/15 and 2015/16, together with outcomes from a base budget review undertaken during the autumn.
- 3.2 Although this showed an expected reduction in core funding as previously reported, the medium term position was estimated to improve compared to October 2013, due mainly to budget savings and the impact of New Homes Bonus.
- 3.3 The level of projected general reserves showed a sustainable position until 2016/17. However, a continuing and increasing budget deficit in the meantime would reduce current reserves quite significantly, without any corrective action being taken.
- 3.4 Consequently, in order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances by 2018/19, it was approved to reduce the base budget by a further £300,000 per year from 2015/16 – although this was less than the £1/2m approved in October 2013.

Updated Position

- 3.5 Since January, some outstanding issues have been finalised, with corresponding adjustments made to the proposed 2014/15 budget and MTFP. These adjustments cover:
 - Minor budget amendments
 - Additional grant following confirmation of the Financial Settlement
 - Pension contributions
 - Apportionment of central costs between the HRA and General Fund

Budget Amendments

- 3.6 Firstly, final figures have been input for the Planning and Community Services Restructure approved in December 2013. Compared to the estimated figures included to-date in the base budget and MTFP, the reduction has slightly increased by £5,858 over the 5-year plan.
- 3.7 Secondly, the saving achieved of £10,000 per year following the tendering of the Council's banking services has now been included.

Additional Grant

- 3.8 A one-off grant of £24,000 in 2014/15 has been confirmed to reimburse the Council for loss of business rates income. This follows the Government's

announcement to cap the rate increase at 2% in 2014/15, compared to a previously indicated increase of 3.5%.

Pension Contributions

- 3.9 Following the results of the 3-year actuarial valuation of the Pension Fund, the Council's overall contributions will **fall by approximately £35,000** per year from 2014/15. Although the overall projected deficit on the Fund has continued to increase over the last 3 years, contributions to the Fund regarding the deficit recovery will actually reduce.
- 3.10 The Council's (employer) contributions to the Pension Fund are currently 22.5% of an employee's pensionable pay. This is split between two elements – a future service cost of 11.8% and a deficit repayment of 10.7%.
- 3.11 The future service element is calculated to ensure that there are sufficient assets built up from current employees to meet future benefit payments. The deficit recovery element is calculated to finance the overall projected deficit on the Fund that has been built up for various reasons in past years and to continue to pay benefits to current pensioners.

Latest Valuation

- 3.12 The Council's share of the projected overall deficit on the Fund (£27m out of £663m) has risen from £22m over the last 3 years. Following the latest valuation, the Fund has an overall level of solvency of 83% with the Council's level falling from 81% to 79% over the last 3 years.
- 3.13 This is due to several reasons including lower mortality rates, lower investment returns with an increase in the value of overall liabilities. It should be noted that these figures are based on a series of assumptions regarding various factors into the future. However, it is clear that even allowing for a margin of error, there is still a significant projected deficit on the Pension Fund.
- 3.14 Based on these results and following the advice of the Actuary, Derbyshire County Council, as the Pensions Administering Authority, have set out the following contributions for the Council which will apply from April 2014.

Year	Future Service Rate	Deficit Recovery (Lump Sum)
2014/15	12.8%	£616,000
2015/16	12.8%	£637,000
2016/17	12.8%	£658,000

- 3.15 The above figures effectively change the methodology for contributions. The future service rate remains, although this has increased by 1% based on the latest valuation. This will continue to be applied to current employees at rate of 12.8%, fixed for 3 years.

- 3.16 The Actuary has then recommended that a separate rate for the deficit recovery element is not applied, but is converted into a lump sum payment, increasing over the next 3 years as shown in the preceding table.
- 3.17 With the equivalent lump sum payment being less than the current deficit recovery rate, this has reduced overall annual contributions by approximately £35,000 from £1,155,000 in 2013/14 to £1,120,000 in 2014/15.
- 3.18 Over the MTFP, this is a reduction of approximately £182,000 after allowing for inflation.

Stabilisation

- 3.19 The reason for the reduction is that the Actuary has applied what is termed a “*stability mechanism*.” This has been used by other local government pension funds elsewhere and is designed to cap contributions for major employers.
- 3.20 If a total overall rate was to be applied, the Actuary has estimated that this would “theoretically” increase to 24.1% from 22.5% in 2014/15. A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent longer term view of funding and to ensure the solvency of the Fund.
- 3.21 Clearly, a rate of 24.1% would place additional budget pressure on the Council, estimated at approximately £100,000 per year. At a time of tight financial constraint, this may not be affordable. Therefore, the Actuary undertook extensive analysis to explore the long term effect of capping increases.
- 3.22 This concluded that the lump sum elements balance stability, affordability and constitute a long term prudent view. The Actuary has placed greater importance on the fact that it is almost certain that the Council or a successor body will continue to exist into the future that would be liable for any outstanding deficit.

Risk

- 3.23 Clearly, the stabilisation payments are less than the theoretical contribution rate and this carries a risk. This could mean that following the next valuation of the Fund in 2017, payments may need to increase.
- 3.24 This needs to be balanced against some major changes to Pensions being implemented in April which are designed to reduce benefits to future pensioners, increase employee contributions and increase the retirement age. In addition, the return on the Fund’s assets may improve in the meantime.

Use of a Pensions Reserve

- 3.25 However, this is not certain and it is therefore recommended that the reduction in estimated pension contributions (£182,000) is saved and set-aside in a Pensions Reserve. This strategy would allow a capital contribution to be made to offset any increases following the next valuation in 2017.

Apportionment of Central Costs between the HRA and the General Fund

- 3.26 As reported last year, a comprehensive review has been undertaken during the Budget Round of the apportionment of central services, senior management and other corporate costs between the General Fund and the HRA.
- 3.27 This included a review of 20 cost categories covering services such as HR, ICT, Finance and Customer Services, etc., together with the core management and democratic costs of the Council.
- 3.28 The review aimed to ensure that there is a fair and reasonable charge for these services in the HRA in accordance with accounting regulations.
- 3.29 The last review of the basis for these charges was in 2004/05; since that time the structure of the Council has changed several times and the social housing function has also undergone significant change culminating in the implementation of self-financing in 2012/13.
- 3.30 The review itself, together with the outcome has been assessed and validated by the Council's External Auditor. The assessment clarified the basis of charges and this has changed the apportionment between the HRA and General Fund.
- 3.31 A summary of the apportionment is shown in **Appendix 4**. Some apportionments into the HRA will reduce, but there are several areas where the current apportionment does not reflect service provision. In addition, there are several central and indirect housing costs where there is currently no apportionment and these alone total approximately £165,000.
- 3.32 The outcome of the review will apportion additional (budgeted) costs of £273,878 to the HRA from the General Fund. This will be effective from 2013/14 and has been included in the updated projection for both the General Fund and HRA.

Council Tax Level and Freeze Grant

- 3.33 The Budget for 2014/15 assumes a Council Tax freeze, subject to approval by Full Council on 3rd March 2014. The Committee is required to recommend a Council Tax rate to that meeting with the current Band D rate being £150.25p.

3.34 The Government have now confirmed the Freeze Grant which is £49,648 for both 2014/15 and 2015/16 – an increase from £44,112 as previously estimated for each of these years.

Summary of Changes

3.35 The cumulative effect of the above changes over the 5-year plan is highlighted in the following table.

Increase in central costs apportioned to the HRA	-£1,643,268
Budget Amendments	-£55,858
Section 31 (NNDR Compensation) Grant 2014/15	-£24,000
Increase in Council Tax Freeze Grant 2014/15 and 15/16	-£11,072
Total increase in Projected Resources	<u>-£1,734,198</u>

3.36 As the table shows, this increases projected resources in the MTFP by approximately £1.7m.

Updated Projection (as February 2014)

3.37 The updated medium term projection is detailed in **Appendix 1** and summarised in the following table.

Year	Budget Deficit / Surplus (-)	Sums Earmarked against Reserves	Balance of Reserves
Revised Budget 2013/14	-£260,372	£141,000	-£4,491,728
Proposed Budget 14/15	-£170,310	£502,000	-£4,160,038
Projection 2015/16	£172,321	£295,000	-£3,692,717
Projection 2016/17	£190,127	£340,000	-£3,162,590
Projection 2017/18	£690,732	£20,000	-£2,451,857
Projection 2018/19	£889,393	£20,000	-£1,542,465

3.38 Given the increase in resources to the MTFP, the projected level of reserves now shows a sustainable position over the life of the MTFP, compared to the minimum target of £1m

Projected Budget Deficit

3.39 However, there is still an estimated budget deficit in the future, rising from £172,000 in 2015/16 to nearly £900,000 in 2018/19; therefore corrective action is still recommended in the short to medium term.

3.40 The current level of general reserves remain healthy and well above the minimum contingency level of £1m approved in the Financial Strategy. These reserves could continue to finance an on-going deficit in the short-term and to finance one-off costs associated with achieving budget savings.

- 3.41 However, this is not considered to be a long term solution especially given the longer-term deficit, the continuing uncertainty of future funding, together with other potential risks and pressures.
- 3.42 Consequently, in order for a sustainable position to be achieved in the medium term, it is important that the estimated deficit in 2015/16 is corrected and the base budget reduced by a further **£174,000 per year before next year's budget round**. Clearly, due to an improved position as reported in January and in this report, this is less than originally estimated back in October 2013, i.e. £1/2m.
- 3.43 This level of budget savings may not completely meet the longer term budget deficit and additional savings may need to be made over the life of the MTFP; this will be kept under review. Based on this updated projection, General Fund expenditure is still greater than income in the medium term.

Main Assumptions

- 3.44 Prudently, the Budget continues to make provision for some growth and inflation. In accordance with current policy, this “contingency” will be maintained centrally and only allocated once any additional costs are known.

Government Grant

- 3.45 The figures reported in January have been confirmed and received parliamentary approval. These are included in Appendix 1. As highlighted earlier in this report, Council Tax Freeze Grant for 2014/15 and 2015/16 (subject to a nil increase being approved) together with additional grant to compensate business rate income, have been confirmed.

Retained Business Rates

- 3.46 As previously reported, this part of the Council's core funding is not fixed and will depend on actual transactions during the year. The Council is required to submit estimated figures to the Government through an annual return.
- 3.47 This calculates the estimated net rates available for distribution; following the completion of the annual return, the distributable amounts are estimated as follows:

Central Government	£10,540, 019
South Derbyshire District Council	£8,432,014
Derbyshire County Council	£1,897,203
Derbyshire Fire and Rescue Service	£210,800
Total Estimated Net Rates 2014/15	£21,080,036

- 3.48 The Council's estimated rates retention (before the Tariff payment) is £8,432,014. This is higher than the figure used by the Government in the financial settlement of £8,332,000 and is based on updated information locally.
- 3.49 If the out-turn is at the estimated level of £8.43m then additional resources will be retained locally compared to the provisional settlement for 2014/15.

4.0 Housing Revenue Account (HRA)

- 4.1 This was considered in detail by the Housing and Community Services Committee on 6th February.

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1641/Committee/325/Default.aspx>

- 4.2 This included details of the proposed rent increase for 2014/15 under the Government's current national rent setting policy for rent convergence.
- 4.3 2014/15 will be the third year under the self-financing framework. The HRA's base budget and 10-year financial projection is detailed in **Appendix 2**. This shows a summary of each main income and expenditure head within the HRA for 2013/14 to 2023/24, together with the yearly surplus/deficit and balance on the HRA's general reserve.
- 4.4 This also shows how future surpluses will be built up to repay debt in accordance with the Council's Treasury Management Strategy.

Summary

- 4.5 The longer-term projection shows that the HRA continues to be sustainable and can deliver the required capital investment in the stock (as planned) and make the necessary surpluses in future years to repay debt – also as originally planned.
- 4.6 The financial position continues to improve due to lower estimated costs and increase in projected rental income; the later is subject to consultation and further detail being published on the Government's proposal to change national policy for setting rents from 2015/16. It is now likely that 2014/15 will be the final year of the current rent convergence framework that has existed for the last 13 years.
- 4.7 In addition, there is also a higher increase in rents in 2014/15 in accordance with the national rent convergence criteria. The average increase approved for 2014/15 was 5.5% (£4.16 per week).
- 4.8 This increases the base rental amount, and therefore, has an on-going and cumulative effect over the financial planning period.

HRA General Reserve

- 4.9 Based on the rent increase of 5.5% and following changes to the Base Budget, the balance on the HRA Reserve is forecast to increase from £2.6m in 2013/14 to £3.1m in 2017/18.
- 4.10 This level of £3.1m is maintained over the remainder of the 10-year financial period as the HRA moves into surplus following the current capital investment programme. As originally planned, future surpluses after 2017/18 will be set-aside to repay debt for when it matures.
- 4.11 The balance of £3.1m is in excess of the minimum level of £1m approved in the Council's Financial Strategy for the HRA.
- 4.12 It should be noted that there could be some additional cost pressures in the HRA. In particular, indications suggest that contributions from the County Council towards Supported Housing may reduce further, as they consider their level of overall funding for Derbyshire from next year; the current contribution is £300,000 per year, although this has previously been reduced from £400,000.
- 4.13 Overall, it is considered that proposed spending budgets are realistic but prudent and allow for inflation. The debt costs are sustainable and allow the planned repayment of debt.
- 4.14 Clearly, the most significant variable continues to be rent, with total income around £12m per year. As the report to the Housing and Community Services Committee highlighted, a relatively low change in percentage terms can have a significant impact in cash terms, particularly when projected over 10-years.
- 4.15 Depending on the outcomes of the consultation on proposed changes to national rent policy from 2015/16, the projected rent levels could change again.

Overall Reserves

- 4.16 In addition to the HRA Reserve of £3.1m, based on the current projections, there would also be £8.3m in the Debt Repayment reserve by 2024, making total projected reserves of £11.4m. This compares to a total of £8.2m in 2012, the first financial plan under self-financing.

Apportionment of Central Costs between the HRA and the General Fund

- 4.17 As detailed in Section 3, the apportionment of costs into the HRA of £273,000 per year will reduce the current level of projected reserves by approximately £3m, from £11.4m to £8.4m.

Pensions

- 4.18 The reduction in pension contributions as detailed earlier in the report in Section 3, attributable to the HRA is approximately £10,000 per year - £105,000 over the 10-year projection.
- 4.19 Similar to the General Fund, it is recommended that this is saved and set-aside in a Pensions Reserve. This strategy would allow a capital contribution to be made to offset any increases following the next valuation in 2017.

5.0 Capital Investment

- 5.1 The main areas of spend continue to be on council housing investment and the improvement of leisure and community facilities.
- 5.2 A substantial part of the investment programme is being financed from external sources, together with the Council's remaining capital reserves and borrowing for housing under the self-financing framework.
- 5.3 The full programme along with financing is detailed in **Appendix 3**. The relevant Prudential Indicators for the capital programme are detailed in the Treasury Management Strategy which is a separate report on this Committee's Agenda.

Capital Receipts

- 5.4 With the implementation of the self-financing framework, Council policy is to reinvest all housing receipts (after any pooling payment to Government) from the sale of council houses and land, into the housing stock and in particular, for New Build.
- 5.5 As regards New Build, the Council has entered into an agreement with the Government to enable it to retain additional receipts generated above a target level of council house sales each year (i.e. 1-4-1 receipts) to be used on New Build.
- 5.6 As highlighted to the Committee in quarterly budget monitoring reports, a New Build Reserve is accumulating and currently stands at just under £1m. The Housing and Community Services Committee are overseeing a New Build programme with a Phase 1 projects being developed.

General Fund Receipts

- 5.7 Future receipts are anticipated from the sale of land off William Nadin Way and as approved, this will be reinvested into relocating the Council Depot.
- 5.8 No other significant receipts are currently anticipated, although some further proposals are nearing Committee consideration.

- 5.9 The General Fund investment programme highlights receipts of £50,000 per year, rising to £125,000 per year from 201/18, to finance on-going capital asset expenditure, mainly the replacement of vehicles and plant for service provision.
- 5.10 It is anticipated that this will be achieved from smaller disposals of land and granting of easements, etc.
- 5.11 If these amounts are not generated, then any larger receipt generated would first need to be earmarked for these commitments. As a contingency, an amount has been earmarked against General Fund Reserves (as shown in **Appendix 1**) should no receipts be generated.

6.0 Section 25 Report (under the Local Government Act 2003)

- 6.1 In their role as the Council's Section 151 (Chief Finance) Officer, the Director of Finance and Corporate Services, is required to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of Council reserves. The commentary is set out in the sections that follow.

Comments of the Chief Finance Officer

- 6.2 This report and that considered on 16th January 2013, highlights the risks and uncertainties surrounding the Council's financial plans and in particular, future Government grant levels and the general economic situation beyond 2015/16.
- 6.3 It is considered that estimates of expenditure are prudent in that they provide for inflation and other known variations, together with provisions that recognise potential cost pressures due to the potential growth of the District. The Budget for 2014/15 and forward projections are based on the most up-to-date economic forecasts for inflation and interest rates, etc.
- 6.4 In addition, a realistic but prudent view has been taken regarding projected income levels from fees, charges and short-term investments. This also includes the likely effects of future funding in the form of Retained Business Rates and the New Homes Bonus.
- 6.5 The compilation of detailed budgets has been undertaken in conjunction with service managers, including wherever possible, a zero based approach for 2014/15. It is recognised that the Council has well established performance and budget monitoring arrangements in place to help ensure that Council finances are monitored effectively. This includes a quarterly report to this Committee.
- 6.6 The Council's Financial Strategy directs the Council to plan its spending over a 5-year rolling period for the General Fund and 10 years for the Housing Revenue Account. This provides an indication of the sustainability of spending

plans and allows sufficient time in which remedial action can be implemented to address any issues in a planned and timely manner.

- 6.7 The following table shows the projected level of revenue reserves over this planning period, 2014 to 2019.

Projected Level of Revenue Reserves

Revenue Reserves	March 2014 £'000	March 2015 £'000	March 2016 £'000	March 2017 £'000	March 2018 £'000	March 2019 £'000
General Fund	4,492	4,160	3,693	3,163	2,452	1,542
Housing Revenue Account	2,114	1,917	1,910	2,027	2,027	2,027
Other Earmarked Reserves	3,526	3,049	2,634	2,320	1,920	1,895
Total - Projected Reserves	10,132	9,126	8,237	7,510	6,399	5,464

Note, the balance on the HRA is after the apportionment of central costs from the General Fund as detailed in the report

- 6.8 The Council, based on the recommendation of the Chief Finance Officer, has approved to set a minimum (contingency) level of General Reserves of £1m on both the General Fund and Housing Revenue Accounts. This meets the requirements of the Local Government Act 2003.

General Fund

- 6.9 The previous table shows that the level of reserves on the General Fund is currently healthy compared to the minimum target of £1m and are sustainable over the life of the MTFP. However, without corrective action to finance the projected budget deficit, they will be drawn down to support the base budget.
- 6.10 This is not considered to be a sustainable solution especially given the longer-term deficit, the continuing uncertainty of future funding, together with other potential risks and pressures. The MTFP shows that the Council still needs to generate further budget savings on the General Fund in order to maintain a sustainable financial position.
- 6.11 Although the level of balances allows on-going spending to be financed in the short-term, the latest projection shows an increasing budget deficit over the planning period with reserves falling quite rapidly in the medium term.
- 6.12 As a growth area, income from planning fees, etc. could increase. However, this cannot be guaranteed and this income can fluctuate significantly from year to year. Therefore, the base budget should be reviewed when the impact of growth that arises from the development of the Local Plan in particular, is known.
- 6.13 Future projections for core funding in the Business Rates Retention System, have taken into account the latest forecasts for national control totals. Even with anticipated increases in New Homes Bonus and Business Rates income,

overall funding is expected to reduce until 2018/19 in accordance with the latest forecasts from the *Office of Budget Responsibility*.

- 6.14 In order for a sustainable position to be achieved in the medium term, it is important that the estimated deficit in 2015/16 is corrected and the base budget reduced by a further **£175,000 per year before next year's budget round**.
- 6.15 This level of budget savings may not completely meet the longer term budget deficit and additional savings may need to be made over the life of the MTFP; this will be kept under review. Based on this updated projection, General Fund expenditure is still greater than income in the medium term.
- 6.16 The Council does have a history of under spending on its General Fund. This is reviewed each year and budgets adjusted accordingly. However, future under spends are not guaranteed and therefore, should not be relied upon.

Housing Revenue Account (HRA)

- 6.17 The overall financial position on the HRA continues to remain positive. If the financial plan regarding debt management and repayment, together with projected rent increases in particular is followed, then the HRA should remain sustainable.
- 6.18 Under self-financing, the HRA is less influenced by external factors unless there was to be a significant change to this framework. Financial risks are lower if fixed budgets for repairs and capital investment are met.
- 6.19 It is noted that funding provided to the HRA for Supported Housing may come under pressure and this will need to be kept under review. The 10-year plan allows for issues and remedial action to be addressed if there is any significant change.

Earmarked Reserves

- 6.20 The Council also maintains several reserves that are used to meet one-off/known commitments or to defray expenditure over a number of years, for example, ICT upgrades, vehicle replacements and grounds maintenance from Section 106 contributions.
- 6.21 It is considered that current reserves will remain sufficient overall to meet commitments over the life of the current MTFP. Reserves held to finance on-going community and sports development spending, will need to be kept under careful review if external and partnership contributions reduce.
- 6.22 A list of all other reserves and funds is detailed in **Appendix 5**, showing current balances.

Risk Analysis

6.23 The following table summarises the key risks and issues detailed in the report and during this particular Budget Round; it assesses the potential impact upon the Council's reserves as projected in the updated MTFP.

Factor	Issue	Mitigation	Effect on Reserves
Council Tax and the Collection Fund Balance	<ul style="list-style-type: none"> Collection rates reduce due to the economic climate Demand for Council Tax Support increases when resources are fixed. Empty properties increase reducing New Homes Bonus 	<ul style="list-style-type: none"> "In built" surplus in the Collection Fund. Local growth is continuing and even at a moderate pace is beneficial. Council Tax liable on empty properties which has increased income and incentivised use/occupation. 	<p>Medium</p> <p>Only 11% of the Balance is transferred to the Council's General Fund. In addition, effect is not immediate and costs can be spread.</p>
Growth	<ul style="list-style-type: none"> A key factor in influencing future levels of grant funding under the business rates redistribution system and NHB. The number of local businesses declines which reduces base income. Affects Council Tax income and other income streams such as Development Control (Planning) 	<ul style="list-style-type: none"> The MTFP projects growth at 2% per year for Business Rates and 1% for the Council Tax Base; these rates are considered realistic and prudent based on recent years. Income budgets for planning, land charges, etc. forecast no increase on current base level. 	<p>High</p> <p>This could affect reserves either way. Growth is a determining factor for the Council's income - and expenditure – and is subject to external factors.</p> <p>This will directly impact on the General Fund.</p>
Budget Savings	<ul style="list-style-type: none"> These need to be made and sustained over the medium-term – but they are delayed beyond 2015/16. 	<ul style="list-style-type: none"> Current level of reserves allows planned action to be taken. Continuing efficiency and transformation programme in place. 	<p>High</p> <p>Directly impacts on the General Fund and if action is delayed, this will affect the MTFP further. However, this is an issue more under the Council's control.</p>
Budget Overspend	<ul style="list-style-type: none"> Unexpected costs or loss of income; there are on-going cost pressures as identified in the report for both the General fund and HRA. 	<ul style="list-style-type: none"> Current level of reserves is healthy and MTFP allows contingencies for inflation and growth, etc. The base budget has been scrutinised and monitoring arrangements in place allow early identification of issues. 	<p>Medium</p>

General Economic Conditions	<ul style="list-style-type: none"> Higher price increases on key costs such as fuel and utilities. Interest rates affect investment returns and debt payments. 	<ul style="list-style-type: none"> Central inflation contingency for price increases. The General Fund is currently “debt free” and not subject to movement in interest rates. The HRA debt is largely fixed and at low interest rates. Sufficient balances allow “internal borrowing” if required. Budgeted income from short-term investments is low and insignificant now in the Base Budget. 	Low
External Funding	<ul style="list-style-type: none"> Contributions from other agencies and partner organisations continue to fall. This mainly affects services such as Community Development and Supported Housing. 	<ul style="list-style-type: none"> Some protection in earmarked reserves covering leisure and community development. Current level of reserves allows planned action to be taken. 	Medium

Consultation and Provision of Information

6.24 The information and broad budget proposals, together with details on where the Council spends its money, have been presented across the District. Specifically, this has been undertaken via:

- Local Area Forums
- Consultation with the local businesses, together with the Community and Voluntary Sector, including a Special Finance Committee on 27th January 2014.

6.25 In addition, the proposals have been subject to the Council’s scrutiny process. A separate report by the Overview and Scrutiny Committee is included elsewhere on the Agenda.

6.26 Although there were many questions and queries, no substantive issues were raised. A record of all discussions has been minuted at each Area Forum, at the Overview and Scrutiny Committees on 22nd January and 12th February 2014, together with the Finance and Management Committee on 27th January.

7.0 Financial Implications

As detailed in the report.

8.0 Corporate Implications

There are no direct legal, employment or other corporate implications apart from those highlighted in the report.

9.0 Community Implications

The proposed budgets and spending, provides the financial resources to enable all of the on-going services and Council priorities to be delivered to the local community.

10.0 Background Papers

None

GENERAL FUND REVENUE ACCOUNT - BUDGET 2013/14 to 2014/15 AND FINANCIAL PROJECTION TO 2018/19

All figures in £'s

	Approved 2013/14	Revised 2013/14	Proposed 2014/15	Projection 2015/16	Projection 2016/17	Projection 2017/18	Projection 2018/19
BASE BUDGET - Net Service Expenditure	11,462,987	11,462,987	11,054,373	11,128,274	11,231,783	11,433,588	11,667,502
Reverse out depreciation	(689,023)	(689,023)	(515,369)	(515,369)	(515,369)	(515,369)	(515,369)
Add in Minimum Revenue Provision	250,000	250,000	238,000	224,000	212,000	200,000	200,000
Additional Provision - Green bins for recycling		54,831	109,663	109,663	109,663	109,663	109,663
Contribution to bad debts provision	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Increase in Factory Site Rent (as per lease agreement)	0	0	0	(20,000)	(20,000)	(20,000)	(20,000)
Anticipated Change in Net Interest Received	0	0	0	9,683	(6,497)	(27,586)	(21,999)
Pensions - Past Service Costs and Deficits falling out	0	0	0	(23,500)	0	0	0
Pay and Grading - on-going costs	0	0	34,000	35,000	35,000	35,000	35,000
Incremental Salary Increases	0	0	0	17,000	17,000	17,000	17,000
Leisure Management Contract - Reducing Subsidy	0	0	0	3,337	(15,195)	(18,061)	(18,061)
Swadlincote Woodlands (Review for 2018/19)	0	0	0	0	0	0	0
E-committees	0	(33,509)	0	0	0	0	0
Senior Management Restructure Savings	0	(200,211)	0	0	0	0	0
Senior Management Restructure Pay Increases	0	53,720	0	0	0	0	0
HRA Recharges	0	(273,878)	(273,878)	(273,878)	(273,878)	(273,878)	(273,878)
Pension Deficit Recovery (to HRA)	0	0	(102,318)	(105,806)	(109,294)	(109,294)	(109,294)
Pay and grading review - additional on going resources	130,000	130,000	130,000	130,000	130,000	130,000	130,000
Provision for Pay Increase	0	56,000	68,620	69,306	70,692	72,459	74,271
Provision for Inflation	161,553	105,553	54,281	83,204	180,112	210,455	213,981
Provision for Growth	85,985	85,985	100,000	100,000	100,000	100,000	100,000
Approved / Anticipated Future Changes	(41,485)	(440,532)	(137,002)	(137,361)	(65,767)	(69,612)	(58,686)
TOTAL ESTIMATED NET REVENUE SPENDING	11,421,502	11,022,455	10,917,371	10,990,913	11,166,017	11,363,976	11,608,815
FINANCING							
Revenue Support Grant	(3,363,237)	(3,363,237)	(2,563,000)	(1,749,000)	(1,378,000)	(823,000)	(811,000)
Share of redistributed business rates (after Tariff & Levies)	(2,204,773)	(2,204,773)	(2,248,000)	(2,310,000)	(2,374,000)	(2,439,000)	(2,506,000)
New Homes Bonus	(1,347,000)	(1,347,000)	(1,779,758)	(2,150,472)	(2,524,578)	(2,568,358)	(2,412,135)
Transfer to Homelessness Prevention (HCS Committee)	64,080	64,080	64,080	64,080	64,080	64,080	64,080

GENERAL FUND REVENUE ACCOUNT - BUDGET 2013/14 to 2014/15 AND FINANCIAL PROJECTION TO 2018/19**All figures in £'s**

	Approved 2013/14	Revised 2013/14	Proposed 2014/15	Projection 2015/16	Projection 2016/17	Projection 2017/18	Projection 2018/19
Council Tax Support Scheme Transitional Grant	(14,053)	(14,053)	0	0	0	0	0
Payment to Parish Councils - Share of Council Tax Support Grant	37,563	37,563	43,627	43,627	43,627	43,627	43,627
Council Tax Freeze Grant 2014/15	0	0	(49,648)	(49,648)	0	0	0
Council Tax Payers	(4,411,190)	(4,411,190)	(4,465,881)	(4,601,176)	(4,740,095)	(4,882,731)	(5,029,176)
Collection Fund Surplus	0	0	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Section 31 Grant	0	0	(24,000)	0	0	0	0
Section 106 Earmarked Reserve	(44,217)	(44,217)	(45,101)	(46,003)	(46,923)	(47,862)	(48,819)

TOTAL FINANCING**GF (Surplus)/Deficit**

	(11,282,827)	(11,282,827)	(11,087,681)	(10,818,592)	(10,975,889)	(10,673,243)	(10,719,423)
	138,675	(260,372)	(170,310)	172,321	190,127	690,732	889,393

GENERAL FUND RESERVE

Balance b/f	(4,372,356)	(4,372,356)	(4,491,728)	(4,160,038)	(3,692,717)	(3,162,590)	(2,451,857)
(Surplus)/Deficit	138,675	(260,372)	(170,310)	172,321	190,127	690,732	889,393
Pay and Grading Review	150,000	0	200,000	150,000	70,000	0	0
Additional Support for the Voluntary and Community Sector	50,000	100,000	0	0	0	0	0
Transfer of Licence Income to Capital Programme	0	0	0	0	0	0	0
Transfer to Sports Development Reserve	0	21,000	0	0	0	0	0
District Election May 2015	0	0	0	125,000	0	0	0
Provision for Land Charges Refunds (Property Searches)	100,000	0	100,000	0	0	0	0
Contribution to vehicle replacement fund	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Contribution to Pensions Reserve	0	0	182,000	0	0	0	0
Provision for Capital Funding	0	0	0	0	250,000	0	0
Balance c/f	(3,913,681)	(4,491,728)	(4,160,038)	(3,692,717)	(3,162,590)	(2,451,857)	(1,542,465)

HRA BASE BUDGET & FINANCIAL PROJECTION (as at February 2014)

All figures in £'s	Approved 2013/14	Revised 2013/14	Proposed 2014/15	Projection 2015/16	Projection 2016/17	Projection 2017/18	Projection 2018/19	Projection 2019/20	Projection 2020/21	Projection 2021/22	Projection 2022/23	Projection 2023/24
Rent From Dwellings	-11,874,330	-11,682,234	-12,285,102	-12,719,119	-13,096,610	-13,522,249	-13,961,722	-14,652,445	-14,843,203	-15,325,608	-15,823,690	-16,337,960
Garage and Shop Rents	-130,000	-130,000	-97,499	-100,668	-103,939	-107,317	-110,805	-114,406	-118,125	-121,964	-125,928	-130,020
Insurances Recharged	-20,000	-20,000	-20,000	-20,500	-21,013	-21,538	-22,076	-22,628	-23,194	-23,774	-24,368	-24,977
Other Fees & Charges	-180,750	-180,750	-187,110	-187,110	-187,110	-187,110	-187,110	-187,110	-187,110	-187,110	-187,110	-187,110
Rechargeable Repairs	-20,000	-20,000	0	0	0	0	0	0	0	0	0	0
Interest received from General Fund	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000
Supporting People Contributions	-350,000	-350,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000	-300,000
TOTAL INCOME	-12,595,080	-12,402,984	-12,909,711	-13,347,397	-13,728,672	-14,158,214	-14,601,713	-15,296,589	-15,491,632	-15,978,456	-16,481,096	-17,000,067
Housing Repairs	3,235,959	3,235,959	3,216,858	3,297,280	3,379,712	3,464,205	3,550,810	3,639,580	3,730,569	3,823,834	3,919,430	4,017,415
General Management	1,289,719	1,289,719	1,242,186	1,273,240	1,305,071	1,337,698	1,371,141	1,405,419	1,440,555	1,476,568	1,513,483	1,551,320
Managing Tenancies	15,360	15,360	14,910	15,283	15,665	16,056	16,458	16,869	17,291	17,723	18,166	18,621
Rent Collection & Accounting	29,280	29,280	20,280	20,787	21,307	21,839	22,385	22,945	23,519	24,107	24,709	25,327
Supported Housing	888,726	888,726	832,240	853,046	874,372	896,231	918,637	941,603	965,143	989,271	1,014,003	1,039,353
Provision for Bad Debts	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Capital Charges (Historical Debt)	51,872	51,872	51,750	51,629	51,508	51,386	51,265	51,143	51,022	50,901	50,779	50,658
Depreciation	2,851,007	2,851,007	2,805,432	2,805,432	2,805,432	2,805,432	2,805,432	2,805,432	2,805,432	2,805,432	2,805,432	2,805,432
Interest on Self Financing Debt	1,574,805	1,574,805	1,574,805	1,684,805	1,804,805	1,904,805	2,004,805	2,024,805	2,024,805	2,024,805	1,504,805	1,504,805
Treasury Management Fees	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Capital Expenditure Requirement	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	3,452,362	3,452,362	3,452,362	3,452,362	2,996,741	2,996,741	2,996,741
Capital Salaries	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Incremental Salary Increases	0	0	0	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Provision for Pay and Grading / Pensions	22,950	37,950	18,380	18,564	18,935	19,409	19,894	20,391	20,901	21,424	21,959	22,508
Contribution to New Build	0	0	286,800	286,800	286,800	286,800	286,800	0	0	0	0	0
TOTAL EXPENDITURE	15,537,678	15,552,678	15,641,641	15,888,866	16,145,607	14,338,223	14,581,989	14,462,549	14,613,599	14,312,806	13,951,507	14,114,180
HRA NET EXPENDITURE	2,942,598	3,149,694	2,731,930	2,541,469	2,416,935	180,009	-19,724	-834,040	-878,033	-1,665,650	-2,529,589	-2,885,887
Less Depreciation	-2,851,007	-2,851,007	-2,805,432	-2,805,432	-2,805,432	-2,805,432	-2,805,432	-2,805,432	-2,805,432	-2,805,432	-2,805,432	-2,805,432
HRA (Surplus)/Deficit	91,591	298,687	-73,502	-263,963	-388,497	-2,625,423	-2,825,156	-3,639,472	-3,683,465	-4,471,082	-5,335,021	-5,691,319
Appropriation												
Set aside for Debt Repayment	0	0	0	0	0	2,625,423	2,825,156	3,639,472	3,683,465	4,471,082	5,335,021	5,691,319
Transfer to General Reserve	91,591	298,687	-73,502	-263,963	-388,497	0	0	0	0	0	0	0
HRA GENERAL RESERVE												
Balance b/f	-2,686,082	-2,686,082	-2,387,395	-2,460,897	-2,724,860	-3,113,357	-3,113,357	-3,113,357	-3,113,357	-3,113,357	-3,113,357	-3,113,357
Transfer out/(in)	91,591	298,687	-73,502	-263,963	-388,497	0	0	0	0	0	0	0
Balance c/f	-2,594,491	-2,387,395	-2,460,897	-2,724,860	-3,113,357	-3,113,357	-3,113,357	-3,113,357	-3,113,357	-3,113,357	-3,113,357	-3,113,357
DEBT REPAYMENT PROVISION												
Balance b/f	0	0	0	0	0	0	2,625,423	5,450,579	9,090,051	12,773,516	7,244,598	12,579,619
Debt repayment set aside	0	0	0	0	0	0	2,625,423	2,825,156	3,639,472	4,471,082	5,335,021	5,691,319
Debt repayment	0	0	0	0	0	0	0	0	0	-10,000,000	0	-10,000,000
Balance c/f	0	0	0	0	0	2,625,423	5,450,579	9,090,051	12,773,516	7,244,598	12,579,619	8,270,938

CAPITAL EXPENDITURE & FINANCING (as at FEBRUARY 2014)

	Approved Budget 2013/14 £	Approved B/fwd 2012/13 £	Adjs 2013/14 £	Total Budget 2013/14 £	Approved Budget 2014/15 £	Approved Budget 2015/16 £	Approved Budget 2016/17 £	Approved Budget 2017/18 £	Approved Budget 2018/19 £
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COUNCIL HOUSE IMPROVEMENTS

Major Improvements under Self-financing	5,150,000			5,150,000	5,150,000	5,150,000	5,150,000	3,102,362	3,102,362
Major Disabled Adaptations	300,000			300,000	300,000	300,000	300,000	300,000	300,000
Minor Disabled Adaptions	50,000			50,000	50,000	50,000	50,000	50,000	50,000
Sheltered Housing Vision		153,094		153,094					
Buxton Close Garage Site Redevelopment		26,225	-26,225	0					
Council New Build Programme Phase 1				0	446,200	446,200	446,200	446,200	446,200

Total Expenditure

5,500,000	179,319	-26,225	5,653,094	5,946,200	5,946,200	5,946,200	3,898,562	3,898,562
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Financed from

Major Repairs Reserve	5,500,000	0	0	5,500,000	5,500,000	5,500,000	5,500,000	3,452,362	3,452,362
Revenue Contribution	0	0	0	0	286,800	286,800	286,800	286,800	286,800
Capital Reserve	0	153,094	0	153,094	159,400	159,400	159,400	159,400	159,400
Earmarked Reserve	0	26,225	-26,225	0	0	0	0	0	0

In MTFP to fund new homes
Receipt from house sales (£797k)

Total Financing

5,500,000	179,319	-26,225	5,653,094	5,946,200	5,946,200	5,946,200	3,898,562	3,898,562
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PRIVATE SECTOR HOUSING RENEWAL

Disabled Facility Grants and other Works	335,717	108,597	26,225	470,539	343,000	281,000	281,000	281,000	281,000
Strategic Housing Market Assessment	0	40,000	0	40,000	0	0	0	0	0
Private Sector Stock Condition Survey	40,000	0	0	40,000	0	0	0	0	0
Empty Property Landlord Grants	45,000	18,024	0	63,024	0	0	0	0	0
Empty Property First Time Buyer Grants	5,000	-4,980	0	20	0	0	0	0	0

Total Expenditure

425,717	161,641	26,225	613,583	343,000	281,000	281,000	281,000	281,000
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Financed from

Government Grant	273,717	108,597	0	382,314	281,000	281,000	281,000	281,000	281,000
External Contributions	0	0	0	0	0	0	0	0	0
Earmarked Reserves	0	0	26,225	26,225	0	0	0	0	0
Derbyshire County Council	62,000	0	0	62,000	62,000	0	0	0	0
General Capital Receipts	90,000	53,044	0	143,044	0	0	0	0	0

Total Financing

425,717	161,641	26,225	613,583	343,000	281,000	281,000	281,000	281,000
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CAPITAL EXPENDITURE & FINANCING (as at FEBRUARY 2014)

	Approved Budget 2013/14 £	Approved B/fwd 2012/13 £	Adjs 2013/14 £	Total Budget 2013/14 £	Approved Budget 2014/15 £	Approved Budget 2015/16 £	Approved Budget 2016/17 £	Approved Budget 2017/18 £	Approved Budget 2018/19 £
GENERAL FUND INVESTMENT PROGRAM									
COMMUNITY SERVICES									
Hilton Village Hall Extension	137,467	187,534	0	325,001	0	0	0	0	0
Melbourne Leisure Centre	165,000	70,637	0	235,637	100,000	0	0	0	0
Melbourne Sports Partnership	1,000,000	-34,083	0	965,917	385,000	330,000	600,000	0	0
Eureka Park - Community Programme	500,000	0	0	500,000	0	0	0	0	0
Community Partnership Scheme	0	42,978	0	42,978	0	0	0	0	0
Rosliston Forestry Centre	0	199,732	0	199,732	0	0	0	0	0
Open Space Development Project	10,000	0	0	10,000	0	0	0	0	0
Swadlincote Skate Park	20,000	0	0	20,000	0	0	0	0	0
Green Bank Leisure Centre Refurbishment - Phase 2	0	556,844	0	556,844	0	0	0	0	0
Etwall Lesiure Centre - Fitness / Community Facilities	0	360,000	0	360,000	0	0	0	0	0
Etwall Leisure Centre - Artificial Grass Pitch	0	550,000	0	550,000	0	0	0	0	0
ENVIRONMENTAL AND DEVELOPMENT SERVICES									
Partnership Schemes in Conservation Areas	20,000	0	0	20,000	20,000	0	0	0	0
PROPERTY AND OTHER ASSETS									
Depot	40,000	0	0	40,000	0	0	0	0	0
Vehicle Replacements	279,000	0	0	279,000	755,595	55,100	420,000	140,000	0
Recycling bins	1,085,367	0	0	1,085,367	0	0	0	0	0
Chestnut Avenue, Midway - Leisure Project	8,000	0	0	8,000	17,000	0	0	0	0
Repairs to Village Halls and Community Facilities	0	48,762	0	48,762	0	0	0	0	0
Public Buildings - Planned Maintenance Programme	0	58,032	0	58,032	0	0	0	0	0
Civic Car	0	0	0	0	0	20,000	0	0	0
Total Expenditure - General Fund	3,264,834	2,040,436	0	5,305,270	1,277,595	405,100	1,020,000	140,000	0

CAPITAL EXPENDITURE & FINANCING (as at FEBRUARY 2014)

	Approved Budget 2013/14 £	Approved B/fwd 2012/13 £	Adjs 2013/14 £	Total Budget 2013/14 £	Approved Budget 2014/15 £	Approved Budget 2015/16 £	Approved Budget 2016/17 £	Approved Budget 2017/18 £	Approved Budget 2018/19 £
Financed from									
External Funding (Growth Point)	137,467	187,534	0	325,001	0	0	0	0	0
Partnership Funding	0	0	0	0	0	330,000	600,000	0	0
Derbyshire County Council	250,000	0	0	250,000	0	0	0	0	0
Sport England	50,000	0	0	50,000	0	0	0	0	0
Football Foundation	0	0	0	0	100,000	0	0	0	0
Aiming High Grant	0	87,710	0	87,710	0	0	0	0	0
Growth Point	0	3,000	0	3,000	0	0	0	0	0
Forestry Commission	0	41,719	0	41,719	0	0	0	0	0
Earmarked Reserves	0	17,303	0	17,303	0	0	0	0	0
Growth Point	0	70,637	0	70,637	0	0	0	0	0
Trust Funders	40,000	0	0	40,000	0	0	0	0	0
Community Landfill	0	0	0	0	50,000	0	0	0	0
Big Lottery	0	0	0	0	50,000	0	0	0	0
Section 106	0	21,000	0	21,000	0	0	0	0	0
Leisure Management Contractor	0	85,000	0	85,000	0	0	0	0	0
Revenue Contributions	0	20,000	0	20,000	0	0	0	0	0
Sport England - Inspired Facilities Grant	0	150,000	0	150,000	0	0	0	0	0
Earmarked Reserves	0	66,000	0	66,000	0	0	0	0	0
Leisure Management Contractor	0	105,000	0	105,000	0	0	0	0	0
External Contributions	0	110,000	0	110,000	0	0	0	0	0
Renewals (Sinking) Fund	0	25,000	0	25,000	0	0	0	0	0
Section 106	150,000	0	0	150,000	0	0	0	0	0
Heritage Lottery	350,000	0	0	350,000	0	0	0	0	0
Police Authority Funding	15,000	0	0	15,000	0	0	0	0	0
DCC Members Funding	4,000	0	0	4,000	0	0	0	0	0
Partnership Funding	1,000	0	0	1,000	0	0	0	0	0
Section 106	0	20,000	0	20,000	0	0	0	0	0
External Contributions	0	430,000	0	430,000	0	0	0	0	0
Derbyshire County Council	200,000	0	0	200,000	0	0	0	0	0
Borrowing (MRP)	885,367	0	0	885,367	0	0	0	0	0

CAPITAL EXPENDITURE & FINANCING (as at FEBRUARY 2014)

	Approved Budget 2013/14 £	Approved B/fwd 2012/13 £	Adjs 2013/14 £	Total Budget 2013/14 £	Approved Budget 2014/15 £	Approved Budget 2015/16 £	Approved Budget 2016/17 £	Approved Budget 2017/18 £	Approved Budget 2018/19 £
Section 106	10,000	0	0	10,000	0	0	0	0	0
Derbyshire County Council	10,000	0	0	10,000	10,000	0	0	0	0
Revenue Contributions	10,000	0	0	10,000	10,000	0	0	0	0
Police Authority Funding	30,000	0	0	30,000	0	0	0	0	0
Vehicle Replacement Reserve	249,000	0	0	249,000	755,595	55,100	420,000	140,000	0
Earmarked Reserves	48,000	0	0	48,000	17,000	0	0	0	0
General Capital Receipts	825,000	600,533	0	1,425,533	285,000	20,000	0	0	0

Total Financing - General Fund

3,264,834	2,040,436	0	5,305,270	1,277,595	405,100	1,020,000	140,000	0
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TOTAL EXPENDITURE - ALL SCHEMES

9,190,551	2,381,396	0	11,571,947	7,566,795	6,632,300	7,247,200	4,319,562	4,179,562
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TOTAL FINANCING - ALL SCHEMES

9,190,551	2,381,396	0	11,571,947	7,566,795	6,632,300	7,247,200	4,319,562	4,179,562
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General Capital Receipts

Melbourne Leisure Centre	125,000			125,000					
Melbourne Sports Partnership	700,000			700,000	285,000				
Melbourne Sports Partnership		-34,083		-34,083					
Community Partnership Scheme		42,978		42,978					
Repairs to Village Halls and Community Facilities		48,762		48,762					
Public Buildings - Planned Maintenance Programme		58,032		58,032					
Rosliston Forestry Centre (Toilets)		50,000		50,000					
Green Bank Leisure Centre Refurbishment - Phase 2		214,844		214,844					
Etwall Lesiure Centre - Fitness / Community Facilities		120,000		120,000					
Etwall Leisure Centre - Artificial Grass Pitch		100,000		100,000					
Civic Car						20,000			
	825,000	600,533	0	1,425,533	285,000	20,000	0	0	0

APPORTIONMENT OF CENTRAL COSTS TO THE HRA

	Total Budget 2014/15	Budgeted recharge 2014/15	Proposed recharge 2014/15	Variance	Total % recharge 2014/15
Democratic Representation & Management	620,220	98,500	155,055	56,555	25%
Corporate Finance Management	104,156	53,708	31,698	-22,010	30%
Funded Pension Schemes	241,505	9,668	0	-9,668	0%
Grounds Maintenance	505,919	136,690	116,367	-20,323	23%
Caretaking	109,567	16,500	19,779	3,279	18%
Senior Management	580,996	34,611	119,638	85,027	21%
Financial Services	413,360	110,280	125,797	15,517	30%
Internal Audit	150,000	27,360	46,885	19,525	31%
Merchant Banking Services	55,825	17,210	9,890	-7,320	18%
ICT Support	871,819	231,917	215,505	-16,412	25%
Legal Services	123,053	73,350	30,763	-42,587	25%
Personnel/HR	312,853	69,390	73,072	3,682	23%
Policy & Communications	284,650	36,780	42,698	5,918	15%
Customer Services	648,538	69,810	114,894	45,084	18%
Health & Safety	44,853	9,066	10,476	1,410	23%
Admin Offices & Depot	406,798	84,040	73,434	-10,606	18%
Procurement Unit	192,800	28,365	87,880	59,515	46%
Defences Against Flooding	48,413	0	3,843	3,843	8%
Housing Advice	55,803	0	42,026	42,026	75%
Reprographic/Print Room	83,746	0	6,340	6,340	8%
Estate Management	239,094	0	55,086	55,086	23%
Total	6,093,967	1,107,245	1,381,123	273,878	23%

The average charge from the General Fund to HRA is 23%

LIST OF EARMARKED RESERVES

Specific / Earmarked Reserves - Council Funds	£
Vehicle Replacement Fund	593,159
Dilapidation Works - Factory Site per Lease Agreement	260,870
IT Reserve	212,367
Local Plan/Development Framework Adoption	130,500
Green Bank Leisure Centre - Refurbishment Works	49,000
Repton Parish (Former Depot proceeds)	33,049
Depot Fees	30,000
Civic Offices	3,500
Innovation Fund	52,666
Growth Point Revenue Grants	23,757
Rosliston Café - Profit Share	23,922
Food Safety Training	3,000
Mobile Working Project	10,000
Total - Specific / Earmarked Reserves	<u>1,425,790</u>

Specific Grants and Contributions - Discretionary

Public Open Space - Commuted Sums	515,661
Youth Engagement Partnership	455,503
Schools Sport Partnership Project	38,535
Crime and Disorder Partnership	442,225
Young people's Cultural Partnership	59,785
Rosliston Business Units	61,275
Get Active in the Forest Partnership	108,812
Environmental Education	56,624
Tetron Point Storm Water Basin - S106 UK Coal	53,012
Swadlincote Woodlands - Section 106	50,774
Rosliston Forestry Centre	35,892
New Play Equipment and Safety Surfacing	22,434
Disabled Facility Grants	25,303
Maurice Lea Park NHLF Grant	23,012
BCU Funding	21,110
LSP Reserve	16,357
Housing Strategy	40,875
Homelessness Prevention	176,581
Local Council Tax Support Scheme	14,006
Welfare Reform	17,003
Community Right to Bid	4,873
Discretionary Housing Payments	14,962
Green Bank Leisure Centre Refurbishment - retention	2,757
Total - Specific Grants and Contributions	<u>2,257,371</u>

Section 106 - Earmarked Funds**869,879****TOTAL EARMARKED RESERVES 4,553,040**

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	20st FEBRUARY 2014	CATEGORY: RECOMMENDED
REPORT FROM:	Director of Finance	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Director of Finance & Corporate Services Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/treasury management/strategies/strategy 2014-15
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2014/15	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the Treasury Management Strategy for 2014/15 is considered and approved.
- 1.2 That the Prudential Indicators and Limits for 2014/15 to 2018/19 as set out in **Appendix 1** are approved.
- 1.3 That the Investment Strategy for 2014/15 including the associated counterparty (lending) list and policy is considered and approved.

2.0 Purpose of the Report

- 2.1 To detail the Council's Prudential Indicators for its expected treasury operations for 2014/15 and beyond. This fulfils the requirements of the Local Government Act 2003, updated for the implications arising out of the Localism Act 2011. Three main areas are covered:
 - The CIPFA Prudential Code (2011) requires the reporting of the Indicators for Capital Finance in Local Authorities.
 - The Treasury Strategy in accordance with the CIPFA Code of Practice on Treasury Management.
 - The Investment Strategy in accordance with Government guidance (2010).

3.0 **Executive Summary**

The Prudential System for Capital Finance

3.1 The main aims of the national prudential system are to ensure that:

- Capital investment plans of local authorities are affordable and sustainable.
- Treasury management decisions are taken in accordance with best professional practice.
- Financial planning and asset management are integrated into the Council's overall corporate planning arrangements.

3.2 Treasury operations are measured within a set of prudential indicators. The main purpose of these indicators is to provide the limits and benchmarks to control the level of capital expenditure, borrowing and investment. The Council is expected to operate well within these limits, in particular when borrowing and investing.

The Treasury Management Strategy

3.3 The Strategy aims to provide transparency for treasury decisions including the use of counterparties, together with assessing how risk is managed on a day to day basis. The Strategy includes implications of the HRA debt taken on under the Self Financing Framework.

Prudential Indicators

3.4 The relevant indicators required under the regulations are summarised in the following sections.

Estimated Capital Expenditure

3.5 This is the approved capital investment programme for the General Fund, together with stock investment proposals included in the HRA Business Plan. The programme is summarised in the following table.

Estimated Capital Expenditure	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund	3,265	1,278	405	1,020	140	0
HRA	5,926	6,289	6,227	6,227	4,180	4,180
Total	9,191	7,567	6,632	7,247	4,320	4,180

3.6 The capital expenditure programme will be financed directly from government grants, external contributions, council reserves and capital receipts. No borrowing is planned to be undertaken to finance this expenditure.

Capital Financing Requirement (CFR)

- 3.7 The CFR is a measure of the Council's underlying need to borrow for capital investment and is based on the value of its assets contained in the Balance Sheet. It does not represent the amount of actual debt outstanding.
- 3.8 This is due to the fact that not all borrowing allowed has in effect taken place against this requirement, but is being financed internally through cash deposits and reserves.
- 3.9 The General Fund CFR is reduced each year by a statutory revenue charge (known as the Minimum Revenue Provision - MRP) but there is no similar requirement for the Housing Revenue Account,
- 3.10 However, in future years, money will be set-aside to repay HRA debt in accordance with the maturity structure. The expected CFR is detailed in the following table.

Expected CFRs	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund	5,757	5,410	5,084	4,771	4,470	4,182
HRA	62,860	62,860	62,860	62,860	62,860	62,860
TOTAL	68,617	68,270	67,944	67,631	67,330	67,042

- 3.11 The CFR on the General Fund will continue to reduce over the medium-term due to the MRP & VRP. This charge, which is £253,000 in 2013/14 and £330,000 in 2014/15, is included in the Council's base budget.
- 3.12 Effectively, the MRP & VRP creates a cash amount in the Council's budget in order to write down the underlying borrowing requirement. The large CFR on the HRA is forecast to remain static until 2018/19 when we are budgeting to start setting aside money for the repayments of the debt based on the current debt structure.

Operational Boundaries and Limits

- 3.13 These are summarised in the following table.

Debt Limits	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Authorised Limit - General Fund	5,757	5,410	5,084	4,771	4,470	4,182
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Operational Boundary	63,458	63,450	63,450	63,450	63,450	63,450

- 3.14 The Authorised Limit is the borrowing cap for the Council. It includes the CFR on the General Fund, plus the debt cap set by the Government on the HRA for self-financing, i.e. £66.853m. The Operational Boundary represents the expected fixed debt outstanding in the year, plus a provision for temporary borrowing of £5m.

Cost of Debt to Finance Capital Expenditure

- 3.15 The estimated cost of debt, to finance the capital programme contained in the consolidated budget proposals on council tax and housing rents, are summarised in the following table.

Cost of Servicing Debt (per year)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Band D Council Tax	-£0.78	-£1.12	-£0.85	-£1.13	-£1.39	-£0.95
Per Council Dwelling	£520	£521	£559	£597	£626	£655

- 3.16 As there is no actual debt on the General Fund, the impact on Council Tax is positive as this represents interest on cash deposits. The surplus is expected to rise incrementally in the medium term in accordance with interest rates.

Available Resources for Investment

- 3.17 This represents balances and reserves held for specific purposes and to act as a contingency / provision. These are the resources the Council has to invest and to internally finance any short term borrowing requirement. The estimated year end position is shown below.

Estimated Resources Available	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
TOTAL	12,128	11,182	9,772	8,252	6,624	5,371

- 3.18 The table shows an incremental use of balances and reserves as they are drawn down to finance spending. These levels may increase as additional resources, such as Section 106 receipts, are generated.
- 3.19 It is estimated that the Council will physically have an amount of £7m invested at the year end. In accordance with the Investment Strategy, this will continue to be held in short-term (less than 364 days) reserve accounts.

4.0 Detail

Prudential Indicators for Capital Expenditure and Borrowing

- 4.1 The Local Government Act 2003 requires the Council to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and in doing so to calculate and monitor a set of prudential indicators. The Code and indicators should sit alongside the main financial plan.
- 4.2 The prudential framework is designed to control the level of borrowing and investment activity at a local level. The indicators themselves either summarise the expected treasury activity or place limits upon the activity that reflect the outcome of the Council's underlying capital expenditure and borrowing requirements.

- 4.3 A fundamental part of the Code is the requirement to adopt and utilise a Treasury Management Strategy. The Council's proposed strategy for 2014/15 is detailed in **Appendix 2**. The Prudential Indicators are detailed in **Appendix 1** with comments and analysis in the following sections.

Capital Expenditure and Financing

- 4.4 The approved capital programme is summarised in the following table.

Estimated Capital Expenditure	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
General Fund	3,264,834	1,277,595	405,100	1,020,000	140,000	0
HRA	5,925,717	6,289,200	6,227,200	6,227,200	4,179,562	4,179,562
TOTAL	9,190,551	7,566,795	6,632,300	7,247,200	4,319,562	4,179,562
Financed By						
Government Grants	273,717	281,000	281,000	281,000	281,000	281,000
Major Repairs Reserve	5,500,000	5,500,000	5,500,000	5,500,000	3,452,362	3,452,362
External / Partnership	1,299,467	272,000	330,000	600,000	0	0
Revenue Contributions	1,144,367	296,800	286,800	286,800	286,800	286,800
Earmarked Reserves	58,000	772,595	55,100	420,000	140,000	0
Capital Reserves	0	159,400	159,400	159,400	159,400	159,400
Capital Receipts	915,000	285,000	20,000	0	0	0
TOTAL	9,190,551	7,566,795	6,632,300	7,247,200	4,319,562	4,179,562

- 4.5 The table highlights that the 5-year investment programme is fully funded. There is no requirement to enter into any borrowing, i.e. there is no additional net financing requirement.
- 4.6 If all financing is not secured, expenditure can be curtailed or other resources and reserves identified. Borrowing is undertaken as a last resort to meet any shortfall and this would be undertaken prudentially within the Council's debt limit. It is not expected that any additional borrowing will be required.

The Council's Borrowing Need or Capital Financing Requirement (CFR)

- 4.7 The CFR is a measure of the Council's underlying need to borrow for capital investment and is based on the net value of its assets contained in the Balance Sheet. Capital expenditure that has not been immediately paid for will increase the CFR through additional borrowing.
- 4.8 The Council is required to pay off an element of the accumulated General Fund CFR each year through a revenue charge called the Minimum Revenue Provision (MRP). Annual amounts are included in the MTFP.
- 4.9 There is no requirement to make a MRP for the HRA. This will continue to be the case under self-financing, although in future years, money will be set-aside to repay HRA debt in accordance with the maturity structure.
- 4.10 A summary of the CFR estimates is shown in the following table.

The Use of the Council's Resources and the Investment Position

4.11 The Council has available at any one time, reserves and balances which are held to finance future expenditure commitments or to act as a contingency sum as recommended by the Chief Finance Officer.

Expected CFRs	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
CFR b/fwd	69,175	68,617	68,270	67,944	67,631	67,330
Add Net Financing	0	0	0	0	0	0
Repayment of Debt	-305	-7	0	0	0	0
Less MRP	-253	-230	-216	-203	-191	-179
Less VRP	0	-110	-110	-110	-110	-110
CFR c/fwd	68,617	68,270	67,944	67,631	67,330	67,042
General Fund Proportion	5,757	5,410	5,084	4,771	4,470	4,182
HRA Proportion	62,860	62,860	62,860	62,860	62,860	62,860

4.12 These balances are available for investment on a short-term basis in accordance with the Investment Strategy. The expected level of reserves and balances is shown in the following table.

Usable Reserves	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund	4,492	4,155	3,637	3,014	2,161	1,057
Earmarked Reserves	3,526	3,049	2,634	2,320	1,920	1,895
HRA	2,114	1,917	1,910	2,027	2,027	2,027
Capital Receipts Reserve	1,997	2,062	1,592	892	517	392
TOTAL	12,128	11,182	9,772	8,252	6,624	5,371

4.13 The table shows an incremental use of balances and reserves as they are drawn down to finance spending. These levels may increase as additional resources, such as Section 106 receipts, are generated.

4.14 It is expected that the Council will physically have an amount of £7m invested at the year end. During the year, this will be much higher and will depend on the overall cash flow position during the financial period.

Limits to Borrowing Activity

4.15 The Council is required to set limits on overall borrowing (net of investments). This controls borrowing and ensures that it does not, except in the short term, exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and the next two financial years.

4.16 A short term deviation is allowed to allow some flexibility if a limited amount of borrowing was required to meet temporary shortfalls in cash flow. The estimated position is detailed in the following table.

Estimated Borrowing Compared to the CFR	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Gross Borrowing - HRA	58,430	58,430	58,430	58,430	58,430	58,430
Gross Borrowing - General Fund	42	35	28	28	28	28
Gross Borrowing - Total	58,473	58,465	58,458	58,458	58,458	58,458
Total CFR	68,617	68,270	67,944	67,631	67,330	67,042

4.17 The above table shows that as gross borrowing is likely to remain below the CFR, the Council will comply with this Prudential Indicator. The HRA borrowing contains the initial debt take-on of £57.4m, together with other borrowing allocated to the HRA on 1st April 2012 of £1m.

4.18 The debt on the General Fund relates to deposits held on account for Parish Councils and these are subject to repayment at short notice. The figures show the estimated year-end position and do not take into account any short-term cash deposits which could offset the CFR.

4.19 The Council's overall financial plans do not at this stage rely on any new borrowing whether on a prudential or unsupported basis.

The Authorised Limit for External Debt

4.20 This represents a limit beyond which external debt is prohibited. It is the statutory limit determined under section 3(1) of the Local Government Act 2003 and includes the debt cap for HRA self-financing of £66.853m.

The Operational Boundary for External Debt

4.21 This represents the expected external debt during the course of the year, but it is not a limit. It is designed to aid the Chief Finance Officer manage treasury activity on a daily basis and acts as an early warning sign of any potential issues. It includes a provision for temporary borrowing of £5m. The Limit and Boundary are summarised below.

Debt Limits	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Authorised Limit - General Fund	5,757	5,410	5,084	4,771	4,470	4,182
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Operational Boundary	63,458	63,450	63,450	63,450	63,450	63,450

Affordability Indicators

4.22 These indicators aim to show the cost of borrowing and capital investment plans on the Council's finances, together with their impact on local taxpayers. Under the Prudential System, borrowing needs to be affordable and sustainable in the longer term.

Ratio of Financing Costs to Net Revenue Stream

4.23 This indicator shows the trend in the net cost of borrowing (allowing for investment income) against the net revenue stream, i.e. Council Tax for the General Fund and Rent Income for the HRA. This is shown in the following table.

Financing Ratios	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
General Fund						
Council Tax Income	£4,411,190	£4,485,881	£4,576,066	£4,667,608	£4,760,525	£4,854,835
Net Interest	-£22,950	-£33,358	-£25,570	-£34,381	-£42,573	-£29,483
Proportion	-0.52%	-0.74%	-0.56%	-0.74%	-0.89%	-0.61%
HRA						
Rent Income	11,682,330	12,285,102	12,719,119	13,096,610	13,522,249	13,961,722
Net Interest	£1,564,005	£1,559,413	£1,671,375	£1,781,686	£1,864,878	£1,948,288
Proportion	13.39%	12.69%	13.14%	13.60%	13.79%	13.95%

4.24 With no debt on the General Fund, the amount is negative. The ratio reflects the level of "gearing" - how much of the Council's turnover is tied up in borrowing costs. Although the proportion for the HRA is greater in cost terms, this is affordable within the Business Plan.

Impact of Capital Investment on the Council Tax and Housing Rents

4.25 This indicator then shows how much per year the costs of borrowing impact upon each household (at Band D council tax rate) in the District and for each council tenant (HRA).

Cost of Servicing Debt	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Net Interest Received - Gen Fund	-£22,950	-£33,358	-£25,570	-£34,381	-£42,573	-£29,483
Estimated Band D Properties	29,359	29,723	30,023	30,323	30,623	30,923
Cost per Band D Property	-£0.78	-£1.12	-£0.85	-£1.13	-£1.39	-£0.95
Estimated Net Interest - HRA	£1,564,005	£1,559,413	£1,671,375	£1,781,686	£1,864,878	£1,948,288
Estimated Dwellings	3,007	2,994	2,989	2,984	2,979	2,974
Annual Cost per Dwelling	£520	£521	£559	£597	£626	£655

5.0 Financial Implications

5.1 As detailed in the report.

6.0 Corporate Implications

6.1. None directly

7.0 Community Implications

7.1 None directly

8.0 Background Papers

8.1 Treasury Management in Public Services and the Code of Practice (Cipfa Publication – November 2011)

8.2 Local Government Act 2003 (Part 1)

8.3 Localism Act 2011 – Part 7 Chapter 3

Appendix 1

LIST OF PRUDENTIAL INDICATORS 2013/14 TO 2018/19

Estimated Capital Expenditure	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
General Fund	3,264,834	1,277,595	405,100	1,020,000	140,000	0
HRA	5,925,717	6,289,200	6,227,200	6,227,200	4,179,562	4,179,562
TOTAL	9,190,551	7,566,795	6,632,300	7,247,200	4,319,562	4,179,562
Financed By						
Government Grants	273,717	281,000	281,000	281,000	281,000	281,000
Major Repairs Reserve	5,500,000	5,500,000	5,500,000	5,500,000	3,452,362	3,452,362
External / Partnership	1,299,467	272,000	330,000	600,000	0	0
Revenue Contributions	1,144,367	296,800	286,800	286,800	286,800	286,800
Earmarked Reserves	58,000	772,595	55,100	420,000	140,000	0
Capital Reserves	0	159,400	159,400	159,400	159,400	159,400
Capital Receipts	915,000	285,000	20,000	0	0	0
TOTAL	9,190,551	7,566,795	6,632,300	7,247,200	4,319,562	4,179,562

Expected CFRs	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund	5,757	5,410	5,084	4,771	4,470	4,182
HRA	62,860	62,860	62,860	62,860	62,860	62,860
TOTAL	68,617	68,270	67,944	67,631	67,330	67,042

Expected CFRs	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
CFR b/fwd	69,175	68,617	68,270	67,944	67,631	67,330
Add Net Financing	0	0	0	0	0	0
Repayment of Debt	-305	-7	0	0	0	0
Less MRP	-253	-230	-216	-203	-191	-179
Less VRP	0	-110	-110	-110	-110	-110
CFR c/fwd	68,617	68,270	67,944	67,631	67,330	67,042
General Fund Proportion	5,757	5,410	5,084	4,771	4,470	4,182
HRA Proportion	62,860	62,860	62,860	62,860	62,860	62,860

Debt Limits	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Authorised Limit - General Fund	5,757	5,410	5,084	4,771	4,470	4,182
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Operational Boundary	63,458	63,450	63,450	63,450	63,450	63,450

Cost of Servicing Debt	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Net Interest Received - Gen Fund	-£22,950	-£33,358	-£25,570	-£34,381	-£42,573	-£29,483
Estimated Band D Properties	29,359	29,723	30,023	30,323	30,623	30,923
Cost per Band D Property	-£0.78	-£1.12	-£0.85	-£1.13	-£1.39	-£0.95
Estimated Net Interest - HRA	£1,564,005	£1,559,413	£1,671,375	£1,781,686	£1,864,878	£1,948,288
Estimated Dwellings	3,007	2,994	2,989	2,984	2,979	2,974
Annual Cost per Dwelling	£520	£521	£559	£597	£626	£655

Financing Ratios	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
General Fund						
Council Tax Income	£4,411,190	£4,485,881	£4,576,066	£4,667,608	£4,760,525	£4,854,835
Net Interest	-£22,950	-£33,358	-£25,570	-£34,381	-£42,573	-£29,483
Proportion	-0.52%	-0.74%	-0.56%	-0.74%	-0.89%	-0.61%
HRA						
Rent Income	11,682,330	12,285,102	12,719,119	13,096,610	13,522,249	13,961,722
Net Interest	£1,564,005	£1,559,413	£1,671,375	£1,781,686	£1,864,878	£1,948,288
Proportion	13.39%	12.69%	13.14%	13.60%	13.79%	13.95%

Cost of Servicing Debt (per year)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Band D Council Tax	-£0.78	-£1.12	-£0.85	-£1.13	-£1.39	-£0.95
Per Council Dwelling	£520	£521	£559	£597	£626	£655

Usable Reserves	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund	4,492	4,155	3,637	3,014	2,161	1,057
Earmarked Reserves	3,526	3,049	2,634	2,320	1,920	1,895
HRA	2,114	1,917	1,910	2,027	2,027	2,027
Capital Receipts Reserve	1,997	2,062	1,592	892	517	392
TOTAL	12,128	11,182	9,772	8,252	6,624	5,371



Treasury Management and Investment Strategy 2014/15

February 2014

1.0 Introduction

- 1.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Supplemented by a series of Prudential Indicators, this helps to consider the affordability and impact of capital expenditure decisions, together with the associated borrowing and investment.
- 1.2 The treasury service considers the effective funding of these decisions. It forms part of the process that ensures the Council achieves a balanced budget requirement under the Local Government Finance Act 1992.
- 1.3 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).
- 1.4 The Council has adopted the Code and as a result, has adopted a Treasury Management Policy Statement. This Strategy and the associated Policy Statement were updated last year to reflect new requirements arising from the Localism Act 2011 and in particular, the move to self-financing for the Housing Revenue Account (April 2012).
- 1.5 On 28th March 2012, the Council took on £57,423,000 of debt significantly increasing the Council's debt. The Council is anticipating that no further borrowing will be required in 2014/15.
- 1.6 When taking on the debt for the HRA in March 2012 the majority of the debt was taken on with a fixed rate, however to ensure that we had a balanced portfolio one loan of £10million was taken on with a variable rate. Any significant changes to the forecast rate will be reported to the Council's Finance and Management Committee with the Strategy being reviewed and updated if necessary.
- 1.7 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year.
- 1.8 This strategy covers:
 - The management of debt
 - The Council's debt and investment projections.
 - The expected movement in interest rates.
 - The Council's borrowing and investment strategies.
 - Treasury performance indicators.
 - Specific limits on treasury activities.
 - Any local treasury issues.

2.0 Debt and Investment Projections

2.1 The table below shows the expected debt position of the Council over the Medium Term Financial Planning (MTFP) period.

External Debt	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Debt 1st April	58,763	58,458	58,450	58,450	58,450	58,450
New Debt	0	0	0	0	0	0
Maturing Debt	-305	-7	0	0	0	0
Debt 31st March	58,458	58,450	58,450	58,450	58,450	58,450
Annual Change in Debt	-305	-7	0	0	0	0
Long-term Investments	0	0	0	0	0	0
Short-term Investments	7,646	6,646	5,646	4,646	3,646	2,646

2.2 A comparison of this estimated debt position with the various borrowing limits is shown below.

Limits compared to Actual Debt	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Authorised Limit - General Fund	5,757	5,410	5,084	4,771	4,470	4,182
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Financing Requirement	68,617	68,270	67,944	67,631	67,330	67,042
Operational Boundary	63,458	63,450	63,450	63,450	63,450	63,450
Gross Debt	58,458	58,450	58,450	58,450	58,450	58,450
Debt Less Investments	50,811	51,804	52,804	53,804	54,804	55,804

2.3 The above table shows that debt outstanding is expected to be comfortably below the Financing or underlying Borrowing Requirement (CFR) and well within the Authorised Limit or Cap.

2.4 The Operational Boundary allows a temporary borrowing requirement of £5m. However, it is expected that the Council will continue to be a net lender of funds on a day to day basis.

Management of Debt

2.5 As approved by the Finance and Management Committee on 23rd January 2012, the Council decided to adopt a “two pool” approach to debt management. This involves splitting borrowing between the General Fund and the HRA and then allocating new loans to each pool as required.

2.6 This has been adopted for clarity and transparency and ensured there was no detriment to the General Fund on transition to HRA self-financing. Treasury Management decisions on the [Page 46 of 85](#) timing of borrowing will be made independently for the General Fund and HRA.

- 2.7 Interest on loans is calculated in accordance with proper accounting practice and allocated to either pool accordingly.
- 2.8 It is not anticipated that there will be a requirement to transfer loans between the two pools. If this is the case, then it will be need to be considered and approved separately.

Internal Borrowing

- 2.9 Both the HRA or General Fund are likely to have surplus cash balances which will allow either account to have external borrowing below its Capital Financing Requirement.
- 2.10 The interest earned will be attributable to the General Fund with a proportion allocated to the HRA based on the average rate of interest earned on cash balances during the year.

Use of Financial Instruments

- 2.11 The Council does not use any type of derivative instruments, such as interest rate swaps or hedge accounting, to manage the risk of borrowing.

General Fund Debt

- 2.12 The General Fund does not currently have any actual debt outstanding and its underlying borrowing requirement is financed from reserves and balances as follows:

General Fund - Net Indebtedness	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
CFR	5,757	5,410	5,084	4,771	4,470	4,182
Estimated Reserves	10,015	9,265	7,862	6,226	4,598	3,344
Net Indebtedness	-4,257	-3,855	-2,779	-1,455	-128	838

- 2.13 However, the table also shows that by 2017/18, the underlying indebtedness increases to a position where borrowing may apply. This will depend on overall cash flow and this is likely to be a temporary position. However, it will be kept under review.

HRA and Limit on Indebtedness

- 2.14 Under self-financing, the HRA pool operates within a cap over which no borrowing is allowed. This was prescribed by the Government and was set at £66,853,000.
- 2.15 The Cap is shown in the following table with a comparison to the CFR and expected level of actual debt on the HRA

HRA Limit on Indebtedness	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
HRA Debt Cap	66,853	66,853	66,853	66,853	66,853	66,853
HRA CFR	62,860	62,860	62,860	62,860	62,860	62,860
Difference	3,993	3,993	3,993	3,993	3,993	3,993
HRA Debt	58,430	58,430	58,430	58,430	58,430	58,430
Borrowing Headroom	8,423	8,423	8,423	8,423	8,423	8,423

2.16 It is expected that the CFR and actual debt on the HRA will remain fairly flat over the majority of the current MTFP. However in 2017/18 it is planned we will start repaying the debt as detailed in the HRA business plan.

2.17 As the actual level of debt is below the Debt Cap, this creates headroom for further borrowing. Any additional borrowing would be undertaken within the affordability of the Business Plan and with committee approval.

Revenue Implications

2.18 The effect of the Council's expected debt management transactions have been included in the MTFP and are summarised in the following table.

Interest Payable and Receivable	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund						
Interest Payable	0	0	0	0	0	0
Interest Received	-23	-33	-26	-34	-43	-29
HRA						
Interest Payable	1,575	1,575	1,685	1,805	1,905	2,005
Interest Received	-11	-15	-13	-23	-40	-57

3.0 Current Economic Outlook

3.1 The UK economy started to show signs of recovery in 2013 with the first estimate of Q4 showing further 0.7% growth and 2.8% year on year.

3.2 The UK was downgraded by two of the 3 main credit rating organisations, with the third organization having the UK on a negative watch.

3.3 It is considered unlikely that interest rates will rise in the foreseeable future to force a rise in the price of money. The UK is still seen as a safe haven for investment and ensures that gilts (effectively the Government's cost of borrowing) remain low. This is the basis on which the PWLB fix their rates

Borrowing Strategy 2013/14 and Longer-Term Plan

- 4.1 For several years, the Council has not been required to enter into any form of long-term borrowing and in fact repaid all of its long-term Government debt in 2004. This was due to substantial capital receipts that the Council had generated, a significant proportion of which had been set-aside to repay debt in accordance with accounting regulations.
- 4.2 These receipts were placed on deposit and earned interest for the Council's revenue funds. In addition, these receipts have effectively been used to finance new capital expenditure and to meet the Council's shorter-term cash flow requirements when this was negative.

Existing Debt

- 4.3 The General Fund currently has not significant borrowing outstanding.

HRA Debt

- 4.4 The HRA has a one money market loan of £1m which was in existence prior to the HRA debt take-on. This is a fixed rate loan at 4.875%, maturing in 2032 with interest payments of £48,750 per year. The Council previously reimbursed a neighbouring authority for managing debt in respect of transferred assets.
- 4.5 The transferred debt was fully repaid in installments in 2013 following agreement with the neighbouring authority.
- 4.6 In March 2012 the Council debt position changed significantly with the HRA debt take-on of £57,423,000. £10,000,000 of this debt was variable rate and is forecast to be 0.70% for 2013/14. The remaining balance of the debt is all fixed rate. The maturity for the fixed and variable rate debt is due to mature periodically between 2022 and 2042. The HRA Business Plan allows for these repayments by generating resources from 2017/18.
- 4.7 The HRA debt will be reviewed regularly with treasury advisors to ensure we have the portfolio that best suits the Council.

Debt restructuring

- 4.8 This strategy will be kept under review and the Council has retained the services of Treasury Advisors to assist the Council. It is possible that the Council will be in a position to repay debt earlier and may also wish to reschedule some longer-term debt depending on future interest rates.
- 4.9 Although this is not anticipated over the current MTFP it will be kept under review. Any early repayment or rescheduling decision will be based on a Net Present Value calculation taking into account the relevant premium or discount.

Variable Rate Debt

- 4.10 As some of the debt is being borrowed at variable rates, this will be kept under closer scrutiny. This proportion of the portfolio (£10m) will be at around 0.7%. Allowance has been made in the Business Plan for this rate to increase to around 5% in future years.

Additional Borrowing

- 4.11 The Prudential System for Capital Finance provides flexibility for local authorities to borrow within their overall limit. Effectively, councils can borrow money as long as they are able to demonstrate that the associated interest and principal repayments are affordable and sustainable within their longer-term financial resources.
- 4.12 Additional borrowing can also be undertaken on an “invest to save” basis, i.e. the cost of loan finance is met from the payback of the investment (efficiencies, greater income, etc).
- 4.13 The Council’s approved Capital Investment Strategy does not contain provision for any additional prudential borrowing. The investment programme will be financed from a mixture of external funding and capital receipts.
- 4.14 The HRA self-financing framework provides an opportunity for the Council to undertake additional borrowing as detailed in Section 2 (above). Although this is not anticipated over the current MTFP, it will be kept under review in accordance with the HRA Business Plan requirements.

Borrowing in Advance

- 4.15 The Council will only borrow in advance of need if it is felt that the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.
- 4.16 In summary, the proposed borrowing strategy for 2014/15 is as follows:
- Meeting the Council’s cash flow requirements, primarily through its Investment Strategy.
 - Keeping under review the HRA debt pool and in particular the variable rate borrowing.
 - Keeping under review the Net Indebtedness position on the General Fund Pool.
 - Reviewing options for the outstanding money market loan of £1m.

Money Market Loan

- 4.17 Potentially, there is a break clause. The lender has the option of reviewing the interest rate at any time and increasing it if they so wish. However, the Council then has the option of rejecting this and can instead choose to repay without incurring any penalty.
- 4.18 The current strategy is that should the lender exercise their option to increase the interest rate and then the loan should be repaid at that time. It is proposed that this strategy continues to be adopted.

5.0 Treasury Management Prudential Indicators and Limits on Activity

- 5.1 There are four further treasury prudential indicators. The purpose of these is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.
- 5.2 However, if these are set too restrictively, they will impair the opportunities to reduce costs. The indicators are detailed in the following sections.

Upper limits on variable interest rate exposure

- 5.3 This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments. This is set at **5.2%** and is based on the affordability in the HRA Business Plan.

Upper limits on fixed interest rate exposure

- 5.4 This is set at **4.5%** and again is based on the affordability of the HRA Business Plan.

Maturity structure of Fixed Rate Borrowing

- 5.5 Based on the HRA debt take-on and the money market loan outstanding, the maturing structure is as follows:

Under 12 months	0%
12 months to 2 years	0%
2 years to 5 years	0%
5 years to 10 years	17%
10 years and above	83%

- 5.6 Although all fixed rate debt is expected to be repaid beyond 10 years, this is spread over a period up to a maximum of 29 years.

Total principal funds invested for greater than 364 days.

- 5.7 This indicator does not apply to the Council.

6.0 Investment Counterparty and Liquidity Framework

6.1 In accordance with Government Guidance, the primary principle governing the Council's investment criteria is the security and liquidity of its investments. Once that is achieved, then yield and length of investment are considered. The Council will also ensure that:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

Specified Investments

- 6.2 The purpose of specified investments is to identify investments offering high security and high liquidity. These investments should be in sterling and with a maturity of no more than a year. They are intended to be used with minimal procedural formalities. Any investments made with the UK Government, another local authority or parish council automatically counts as specified investments.
- 6.3 In addition, short-term investments with bodies or investment schemes with "high credit ratings" will count as specified investments. However, it is left to each authority to determine these institutions, and the Council must determine investment limits and how frequently these ratings are to be monitored.

Non-Specified Investments

- 6.4 Basically, these are all other investments not meeting the above criteria. Due to the fact that these investments could carry more risk than specified ones, the Council needs to set limits on these investments and determine guidelines on when they should be used.
- 6.5 The regulations make it clear that they do not wish to discourage authorities from using non-specified investments. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies that do not carry such a high credit rating.

Credit Quality

- 6.6 The credit worthiness of counterparties remains paramount in any investment decision and this is reflected in the approved lending policy and counterparty list. This is more important given the current economic situation and the credit risk in financial markets. This has seen many traditional "high street" financial institutions being downgraded in recent times.

- 6.7 The Council primarily relies on one of the 3 recognised credit rating agencies under the regulations, i.e. the “Fitch” IBCA rating to assess credit quality. Using this agency, the Council monitors the outlook or watch rating on an on-going and regular basis to determine whether the institution provides a safe investment.
- 6.8 Besides the use of the credit rating agency, the Council refers to the financial press, government support for banks and other market data. This is backed up by information and advice from the Council’s appointed Treasury Advisors.
- 6.9 Based on the core principles, the following strategy is adopted.

7.0 Investment Strategy 2014/15

- 7.1 The Council is expected to have a regular short-term investment requirement to enable it to manage its day-to-day financial affairs. There is no current proposal to enter into longer term and externally managed funds. Where the Council should need to borrow in advance of need, this strategy also applies.
- 7.2 The current approved investment list is based on best practice and is serving the short-term investment needs of the Council. It is kept under review and will be updated in line with the Treasury Management Policy Statement if and when necessary.
- 7.3 The approved lending list and policy is shown at **Appendix 3**. In accordance with regulations, it sets out where the Council will invest surplus funds and places limits upon the various institutions.
- 7.4 A summary is shown in the following table.

Institution	Limit
Specified Investments <ul style="list-style-type: none"> • UK Debt Management Office (DMO) • Local, Police, Fire and Parish Authorities • Other Bodies with a High Credit Rating of F1+/AA- 	£15m £5m £7.5m
Non-Specified Investments <ul style="list-style-type: none"> • F1/AA Rated Bodies – First Call • F1/A Rated Bodies – Second Call • F2/A Rated Bodies – Third Call 	£2m £2m £0.25m

Definition of Credit Ratings

7.5 The long-term rating is based on an investment grade categorised by “Fitch” on the following scale.

AAA: the best quality companies, reliable and stable

AA: quality companies, a bit higher risk than AAA

A: economic situation can affect finance

BBB: medium class companies which are satisfactory at the moment.

7.6 Intermediate modifiers are also used for each category between AAA and BBB (i.e. AA+, AA, AA-, A+, A, A-, etc.).

7.7 Short-term credit ratings indicate the potential level of default within a 12-month period, based on the following scale.

F1+: best quality grade, indicating exceptionally strong capacity to meet financial commitments.

F1: best grade, indicating strong capacity to financial commitments.

F2: good quality grade with satisfactory capacity to financial commitments.

7.8 The scale then falls from F3 to B, then C and finally down to D, which indicates the institution is likely to, or as failed to meet its financial commitments.

General Policy

7.9 As approved, priority is given to specified investments in any investment decision. The length of investment is made in accordance with overall cash flow requirements.

7.10 The Council’s policy is to seek investments with those institutions graded at least AA and F1+. The policy is to focus on the credit quality of investment counterparties rather than amounts invested and returns.

Use of Non-Specified Investments

- 7.11 This generally covers high street financial institutions (banks and building societies) and the merchant or secondary-banking sector. It is proposed that these are only used as a “lender of last resort” and in the order listed in the above table.
- 7.12 In particular this may be the case where limits on specified investments are likely to be exceeded and where there is a temporary need to place money.
- 7.13 It should be noted that F1 and F2 credit ratings are still considered to be fairly high ratings for short-term deposits.
- 7.14 These banks are seen as being safe to invest with advice from the Treasury. Therefore, as non-specified investments, these will be utilised when other limits are reached and have a limit of £1million. Instant access accounts mean we are able to withdraw funds at any time if the financial situation of these institutions was to change.

Use of Treasury Advisors

- 7.15 The Council uses a firm of advisors on a retained basis. Their role is to provide market analysis and advice, together with literature and updates on key treasury management developments. They do not offer any of their own or 3rd party products/instruments for borrowing or investing.
- 7.16 They also provide training workshops and seminars. They are appointed through the Council’s procurement framework.

Performance Indicators

- 7.17 The main indicator is for the return on short-term investments to, average over the year, the Market 7-Day Rate, this being a standard measure of performance. Performance in recent years is shown in the following table.

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
7-Day Rate (target)	4.82%	5.61%	3.57%	0.39%	0.51%	0.62%	0.51
Actual Rate	4.86%	5.81%	4.38%	0.72%	0.78%	0.32%	0.31%

APPROVED LENDING LIST & POLICY

1. Approved Types of Investment

The Council may use the following types of investment when managing funds:

- Fixed Term Deposits
- On Call Deposits

2. Approved Institutions for Investment

The Council may invest surplus cash with the following institutions, subject to the provisions within the investment policy in 3 below:

- UK Debt Management Office (DMO);
- Local Authorities and Police Authorities within the UK;
- Major clearing banks incorporated in the UK and their subsidiaries (use of non-British banks is subject to the assessment and approval of the Chief Finance Officer);
- UK Building Societies;
- British Merchant Banks and Securities House Association members;
- The secondary banking sector (use of non-British banks is subject to the assessment and approval of the Chief Finance Officer).
- Foreign Banks with an F1+ Rating (subject to the assessment and approval of the Chief Finance Officer).

3. Investment Policy

The following limits apply on the amount of money that can be invested with any one institution mentioned above, by the designated officers:

• UK Debt Management Office (DMO)	£15M
• Highest quality financial institutions	£7.5M
• Local authorities and police authorities	£5M
• 100% owned subsidiaries of clearing banks	£2M
• F1/AA rated building societies	£2M
• F1/A rated building societies	£1M
• Unrated building societies	£1M
• F1 /A rated merchant or secondary banks	£2M
• F2/A rated merchant or secondary banks	£0.25M

NOTE

- [Page 57 of 65](#)
- The highest quality financial institutions must have a minimum short-term “Fitch” IBCA rating of F1+ and a long-term rating of AA.

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	20 TH FEBRUARY 2014	CATEGORY: DELEGATED
REPORT FROM:	CHIEF EXECUTIVE	OPEN
MEMBERS' CONTACT POINT:	DEBRA TOWNSEND 595848 debra.townsend@south-derbys.gov.uk	PARAGRAPH NO: N/A DOC: Audit Sub
SUBJECT:	AUDIT SUB-COMMITTEE	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM09

1.0 Recommendations

- 1.1 That the Minutes of the Audit Sub-Committee Meeting held on 25th September and 18th December 2013 are received and any recommendations contained therein are approved and adopted.

2.0 Purpose of Report

- 2.1 To receive the Minutes of the Audit Sub-Committee Meeting held on 25th September and 18th December 2013.

3.0 Detail

- 3.1 The Open Minutes of the Audit Sub-Committee Meeting held on 25th September and 18th December 2013 are attached at Annexes A & B.

4.0 Financial Implications

- 4.1 As detailed in the Minutes.

5.0 Corporate/ Legal/ Employment Implications

- 5.1 See Minutes.

6.0 Community Implications

- 6.1 See Minutes.

7.0 Background Papers

- 7.1 See Minutes.

AUDIT SUB-COMMITTEE

25th September 2013

PRESENT:-

Conservative Group

Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and Hood.

Labour Group

Councillors Dunn and Shepherd.

AS/8. **MINUTES**

The Open Minutes of the Meeting held on 19th June 2013 were submitted. The Minutes were approved as a true record and signed by the Chairman.

MATTERS DELEGATED TO SUB-COMMITTEE

AS/9. **ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE**

Grant Thornton, the Council's appointed auditors presented their statutory Annual Report on the Council's accounts and financial statements for 2012/13. The Sub-Committee was requested to consider the report and its recommendations, together with the proposed management responses. Tony Parks of Grant Thornton took Members through the circulated document. It provided details on the Audit of the Council's annual accounts, financial statements and financial systems for 2012/13. Consequently it provided an opinion on the accounts. It was noted that this report would also be presented to the Finance and Management Committee for formal adoption and publication.

In addition, the report assessed overall value for money arrangements at the Council and provided the Auditor's opinion on whether value for money was provided. Finally, at the end of the Audit, the Council was required to provide a letter of representation. This required the Council's Chief Finance (Section 151) Officer to provide assurances about the status of the accounts and financial statements. Essentially, it confirmed that there were no material issues or transactions known, other than those already reported and disclosed that could materially affect the accounts for 2012/13.

As a result of the assessment, it was confirmed that the auditors would be able to issue an unqualified opinion on the accounts. There were no matters arising and no significant control issues were identified.

The Auditor praised the work of the Head of Service and his staff and thanked the officers for their co-operation.

The Committee welcomed the report and:

RESOLVED:-

- (1) That the report be approved; and***
- (2) That having considered the report, the Sub-Committee is satisfied that there are no specific matters that prevent the formal adoption of the Financial Statements.***

AS/10. **INTERNAL AUDIT – QUARTERLY PROGRESS REPORT**

A progress report was provided detailing performance and activity of Internal Audit between 1st June and 31st August 2013. Adrian Manifold of the Central Midlands Audit Partnership took Members through the circulated document. This comprised a summary, details of the audit coverage, audit performance and recommendation tracking. The Officer highlighted particular sections of the report and responded to Members' questions. He identified a number of low risk issues but confirmed that there were no serious matters of concern.

It was stated that the audit performance was on target for the year.

Finally, Members discussed recommendation tracking, and noted a new recommendation regarding Council Tax.

RESOLVED:-

That the report of the Audit Manager is received with thanks.

AS/11. **PUBLICSECTOR INTERNAL AUDIT STANDARDS-COMPLIANCE**

A report was submitted by Richard Boneham of the Central Midlands Audit Partnership to provide the Sub-Committee with a self-assessment of conformance with the new Public Sector Internal Audit Standards which came into effect on 1st April 2013.

The report outlined the man changes to the regime and contained a detailed appendix setting out how the new system works.

Members commented that they found the new system to be very comprehensive and:

RESOLVED:-

That the report be noted.

J. HARRISON

CHAIRMAN

The Meeting terminated at 4.20 p.m.

AUDIT SUB-COMMITTEE

18th December 2013

PRESENT:-

Conservative Group

Councillor Harrison (Chairman), Councillor Mrs. Hood.

Labour Group

Councillor Dunn

AS/12. **APOLOGIES**

Apologies for absence from the Meeting were received from Councillors Ford (Vice-Chairman) (Conservative Group) and Shepherd (Labour Group)

MATTERS DELEGATED TO SUB-COMMITTEE

AS/13. **INTERNAL AUDIT – QUARTERLY PROGRESS REPORT**

A progress report was provided detailing the performance and activity of Internal Audit between between 1st September 2013 and 30th November 2013.

Members expressed concern that some items on the progress report appeared to be behind target. Adrian Manifold confirmed that all actions were expected to be completed.

The Officer responded to further questions from Members and gave an explanation on the new system of ranking risks from low to critical.

Members queried why the Leisure Management Contract had not yet been completed. The Director of Finance and Corporate Services responded that there were a few issues still to be resolved, therefore the finalisation of the contract had been postponed until the 31st January 2014. It was requested that a report be sent back to Audit Sub Committee if the contract had not been completed by this date.

RESOLVED:-

That the report of the Audit Manager be received.

AS/14. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS – PROPOSED AUDIT CHARTER**

A report was submitted by The Central Midlands Audit Partnership on the proposed Audit Charter.

In accordance with the Public Sector Audit Partnership, which came into force on 1st April 2013, the report set out the proposed charter. It was noted that the report was presented to the Partnership Board earlier in December.

Members asked questions on the whistle blowing policy and further information was provided.

RESOLVED:-

That the report be noted.

AS/15. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS - QUALITY ASSURANCE & IMPROVEMENT PROGRAMME**

A report was submitted by The Central Midlands Audit Partnership to provide the Sub-Committee with information on a new Quality Assurance and Improvement Programme for internal audit in accordance with the Public Sector Audit Standards that came into force on 1st April 2013.

The report outlined the main changes to the regime and contained information that set out how the new system worked.

RESOLVED:-

That the report be noted.

AS/16. **LOCAL CODE OF CORPORATE GOVERNANCE – REVIEW OF WORK PLAN 2013/14**

A report was submitted by the Monitoring Officer to give Members a 6 monthly update on progress associated with updating and strengthening the Councils Corporate Governance arrangements.

Members discussed the on-going review of Member training and development.

RESOLVED:-

That the report be noted.

J. HARRISON

CHAIRMAN

The Meeting terminated at 5.05 p.m.

Page 63 of 65

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	20th February 2014	CATEGORY: DELEGATED
REPORT FROM:	CHIEF EXECUTIVE	OPEN PARAGRAPH NO: N/A
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (EXT. 5811)	DOC:
SUBJECT:	WORK PROGRAMME	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: N/A

1.0 Recommendations

1.1 That the Committee receives the updated work programme.

2.0 Purpose of Report

2.1 The Committee is asked to review its work programme.

3.0 Detail

3.1 The updated work programme for the Finance and Management Committee is attached at Annexe 'A'. Members are asked to review this document.

4.0 Financial Implications

4.1 None arising directly from this report.

5.0 Background Papers

5.1 Work Programme.

**Work Plan for 2013/14 – Finance and Management Committee
Standing and Other Planned Reports**

Committee 20th March 2014

- Corporate Plan – Performance Monitoring 2013/14
- Financial and Budget Monitoring 2013/14
- Corporate Plan – Updated Priorities 2014/15

Committee 24th April 2014

- Debt Recovery – Proposed changes to Bailiff Regulations and Council Policy

Committee 21st May 2014 (Special – Date to be confirmed)

- Provisional Budget Out-turn 2013/14
- Local Council Tax Support Scheme – Provisional Out-turn 2013/14