

# AGENDA



## CABINET

**MONDAY, 3 FEBRUARY 2014**

**11.00 AM**

**COUNCIL CHAMBER - COUNCIL OFFICES, ST. PETER'S HILL,  
GRANTHAM. NG31 6PZ**

Beverly Agass, Chief Executive

**MEMBERS:** Councillor Mrs. Linda Neal (Leader/Portfolio: Policy, Strategy and Strategic Partnerships), Councillor Paul Carpenter (Deputy Leader & Portfolio: Governance & Communication), Councillor Mrs Frances Cartwright (Portfolio: Grow the Economy and Economic Development), Councillor John Smith (Portfolio: Healthy Environment), Councillor Mike Taylor (Portfolio: Strategic Resources - Well Run Council), Councillor Terl Bryant (Portfolio: Good Housing) and Councillor Bob Adams (Portfolio: Arts and Leisure)

Committee Support Officer: Lucy Bonshor      Tel: 01476 40 61 20  
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**Members of the public are entitled to attend the meeting of the Cabinet at which key decisions will be taken on the issues listed on the following pages. Key decisions are marked \*.**

### 1. APOLOGIES

*Your council working for you*

**2. MINUTES**

**(Enclosure)**

**3. DISCLOSURE OF INTERESTS (IF ANY)**

**4. \*DETERMINATION OF BUDGET REQUIREMENT FOR 2014/15 AND INDICATIVE FOR THREE YEARS THEREAFTER**

- Report HOF265 by the Strategic Director Corporate Focus and Head of Finance.

**(Enclosure)**

- Report HOF264 by the Strategic Director Corporate Focus and Head of Finance.

**(Enclosure)**

**5. \*CINEMA SCHEME DEVELOPMENT AT ST CATHERINE'S ROAD**

Report PD015 by the Property Development Manager.

**(Enclosure)**

**6. MATTERS REFERRED TO CABINET BY THE COUNCIL, SCRUTINY COMMITTEE OR THE POLICY DEVELOPMENT GROUPS**

**7. ITEMS RAISED BY CABINET MEMBERS INCLUDING REPORTS ON KEY AND NON KEY DECISIONS TAKEN UNDER DELEGATED POWERS.**

**8. REPRESENTATIONS RECEIVED FROM NON CABINET MEMBERS**

**9. ANY OTHER BUSINESS WHICH THE CHAIRMAN, BY REASON OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT**



**MEETING OF THE CABINET**  
**13 JANUARY 2014 - 11.00 AM – 11.47 AM**

**PRESENT:**

**Councillor Paul Carpenter**  
**Councillor Mrs Frances Cartwright**  
**Councillor John Smith**  
**Councillor Mike Taylor**  
**Councillor Teri Bryant**  
**Councillor Bob Adams**

**Councillor Mrs. Linda Neal - Chairman**

**Chief Executive (Beverly Agass)**  
**Strategic Director Corporate Focus/Section 151 Officer**  
**(Daren Turner)**  
**Head of Finance (Richard Wyles)**  
**Property Development Manager (Neil Cucksey)**  
**Head of People, Projects and Performance (Sue Griffiths)**  
**Service Manager Human Resources & Organisational**  
**Development (Joyce Slater)**  
**Head of Legal & Democratic Services/Monitoring Officer**  
**(Lucy Youles)**  
**Cabinet Support Officer (Lucy Bonshor)**

**Non-Cabinet Members : Councillor Nick Craft**

CO31. MINUTES

The decisions from the meeting held on 2nd December were agreed as a correct record.

CO32. DISCLOSURE OF INTERESTS (IF ANY)

None disclosed by Members.

The Chief Executive said that although officers did not have a pecuniary interest in item 6 on the agenda (Pensions Policy 2014) officers would leave the meeting whilst this issue was being discussed. The Head of People, Projects and Performance and the Service Manager Human Resources & Organisational Development would remain in the meeting to answer any questions from Members. The Democratic Officer would also remain to take the minutes.

CO33. \*BUDGET REQUIREMENTS 2014/15

**Decision:**

**General Fund**

- 1.1 To note the provisional settlement for 2014/15.
- 1.2 Agrees a provisional target General Fund Budget Requirement of £13.152m for 2014/15 (inclusive of Special Expenses).
- 1.3 Considers feedback from the consultation with respect to Council Tax in order to recommend a council tax level at the Cabinet meeting on 3rd February 2014.

**Housing Revenue Account**

- 1.4 To approve in line with the current policy of achieving rent convergence, an indicative rent increase for consultation purposes with the Tenant consultation forums. This is an average increase for SKDC tenants of 5.13%.
- 1.5 Agrees to review the proposed rent increase at recommendation 1.4 above, at the February Cabinet meeting, in light of consultation, and other related information.

Considerations/reasons for decision:

- 1) Report HOF262 from the Head of Finance.
- 2) The provisional finance settlement for 2014/15 had been confirmed at £6.956m.
- 3) The award for 2014/15 included all elements of grant including Council Tax Freeze grant (agreed in 2011/12 for 4 years), homelessness grant and Council Support grant. It was no longer possible to identify the allocation of Council Tax support grant as it was incorporated into the overall grant.
- 4) The new funding allocation was split between locally raised business rates which were retained and revenue support grant.
- 5) For the period 2010/11 to 2015/16 the grant had been reduced by £4.285M or 43% in cash terms.

- 6) The Councils current policy to keep in line with the Government's guidance on rent restructuring.
- 7) Consultation results to date (subject to change once all postal consultations were received) indicated that over 50% of those consulted were happy with a 1.75% increase in the Council Tax.
- 8) Comments made by the Portfolio Holder Strategic Resources thanking the officers and their team for their hard work.
- 9) Comments made by a Member about not knowing the actual grant settlement for specific grants.
- 10) Comments made by the Strategic Director Corporate Focus about the revenue support grant and the baseline grant settlement.
- 11) Comments made by the Leader about the grant formula.
- 12) Comments by Members about the need to have clarity in any literature sent out concerning the budget and Council Tax notification.

CO34. \*GROUND MAINTENANCE FRAMEWORK - CONTRACT AWARD

**Decision:**

**Cabinet confirm the award of the new framework contract to Glendale Grounds Management Limited (Glendale) for a four year period, with any extension dealt with in accordance with the call off framework, for the provision of grounds maintenance within the district of South Kesteven and delegate the signing of the contract documentation to the Strategic Director – Corporate Focus.**

Considerations/reasons for decision:

- 1) Report PD012 from the Property Development Manager.
- 2) Invitations to tender sent out by Procurement Lincolnshire and the evaluation of the tenders supplied by three service providers.
- 3) Glendale was a specialist green service provider and had been delivering tailored diverse green solutions to public and private clients for over 25 years.
- 4) Glendale's method statement linked to South Kesteven District Council's Priority outcomes and projects.
- 5) Comments made by the Portfolio Holder about the work that the previous contractor had done especially in the supported housing complexes and had contributed to the green flag status of Wyndham Park.

Other options considered

The current contract had the option to extend the contract period by up to three years by mutual agreement of the terms. The contract was extended by one year by mutual agreement with the terms unaltered until 28 February 2014. This was to align contract end dates with other district councils tendering this area of work to allow Procurement Lincolnshire to assemble

suitable Lots for the tender process.

The incumbent Grounds Maintenance service contractor informed us on 4th September 2013 that they would not be submitting a tender for the Lincolnshire Grounds Maintenance framework. Therefore, there was no option to further extend the existing contract.

CO35. \*PENSIONS POLICY 2014

*(11.23am all Officers present left the meeting during the following item except the Head of People, Project and Performance, the Service Manager Human Resources and Organisational Development and the Democratic Officer)*

**Decision:**

- 1) That Cabinet approves the South Kesteven District Council policy statement in respect of the new Local Government Pension Scheme 2014.**
- 2) That the policy is kept under review, pending the release of further guidance and that any subsequent changes are reported back to the Cabinet for approval.**

Considerations/reasons for decision:

- 1) Report HR&OD119 from the Service Manager Human Resources and Organisational Development.
- 2) Regulation 60 in SI 2013 2356 required the Council, as a scheme employer, to publish a written statement of its policy in relation to the exercise of its functions.
- 3) The Local Government Pension Scheme 2014 (LGPS 2014) was changing from a final salary scheme to an account based Care Average Re-valued Scheme from 1st April 2014.
- 4) Pension was now calculated on the contributions paid into an employee's pension account, on a new set of employee contribution rates which ranged from 5.5% - 12.5%.
- 5) Each year's contribution was revalued using the consumer price index rate.
- 6) A comment made by a Member about the need to keep the document under review.
- 7) A comment asking for clarity about the revaluation of the contributions made.

Other options considered

The policy is required by regulations.

The option not to adopt discretions 5.2 and 5.8 in relation to added pension contributions or employer award of additional pension had been proposed in

the policy statement because of the financial implications. If the Council were to adopt these discretions there were both significant financial costs that would arise and a detailed set of criteria would need to be specified to ensure a fair application of those discretions. In the current financial climate it was felt that the cost implications of adopting discretions 5.2 and 5.8 outweigh the value of enhancing reward packages.

*(11.30am all officers returned to the meeting)*

CO36. \*CUSTOMER ACCESS STRATEGY

**Decision:**

**Cabinet approves the Customer Access Strategy as attached to report PPP01 which will determine the way in which customers receive services from the council.**

Considerations/reasons for decision:

- 1) Report PPP01 from the Head of People, Projects and Performance.
- 2) Good customer service made for an efficient organisation as it provided what the customer wanted and reduced failure demand.
- 3) The Strategy was based on the Council's values and provided a clear picture of what the council wanted to achieve.
- 4) The Citizens Panel had provided valuable information about how people contacted the council and how they may choose to contact the council if there were more choice. (Increased use of technology for simple transactions)
- 5) Consultation on the Strategy had been undertaken with both the Cabinet and the Engagement PDG.
- 6) The Strategy set out the Council's vision and an overall model to achieve the intended outcomes across five themes essential to the maintenance and development of excellent customer services. The themes would be supported by detailed action plans, refreshed on an annual basis.
- 7) Comments made by various Members that the customer first attitude must come before any financial savings and must not be to the detriment of the services given to vulnerable customers.

**DATE DECISIONS EFFECTIVE:**

Decisions CO33, CO34, CO35 and CO36 as made on 13th January 2014 can be implemented on Wednesday 22nd January 2014, unless subject to call-in by the Scrutiny Committee Chairman or any five members of the Council from any political Group.

<b>REPORT TO CABINET</b>
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REPORT OF:                   STRATEGIC DIRECTOR – CORPORATE FOCUS  
   HEAD OF FINANCE

REPORT NO.:                 HOF 265

DATE:                         3rd February 2014

<b>TITLE:</b>	<b>Determination of General Fund Budget 2014/15 and indicative budgets to 2016/17.</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Budget Framework Proposal	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Cllr Mike Taylor Resources and Assets Portfolio Holder	
<b>CONTACT OFFICER:</b>	Daren Turner – Strategic Director Corporate Focus Tel: 01476 406301 Email: <a href="mailto:d.turner@southkesteven.gov.uk">d.turner@southkesteven.gov.uk</a> Richard Wyles – Head of Finance Tel: 01476 406210 Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ASSESSMENT:</b>	Stage 1 Equality impact analysis and undertaken	Full impact assessment Required: N/A
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Local Democracy link on the Council’s website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	HOF262 – Budget Requirement 2014/15  The above reports can be located by putting their reference number in the search section of the committee website via the link below: <a href="http://moderngov.southkesteven.gov.uk/ieDocSearch.aspx?bcr=1">http://moderngov.southkesteven.gov.uk/ieDocSearch.aspx?bcr=1</a>	

## 1. RECOMMENDATIONS

In relation to the General Fund (Revenue)

Make recommendations a. to c. to Council:

- a. to set a General Fund budget requirement of £13.170M for 2014/15 shown at Appendix A (inclusive of special expenses)
- b. to approve a level of Council Tax for 2014/15
- c. to note the indicative base estimates for 2015/16 and 2016/17 as detailed in the summary at Appendix A.;

In relation to Capital Programme

Make recommendations d. to e. to Council:

- d. approve the General Fund Capital programme for 2014/15 to 2018/19 detailed at Appendix C page 1
- e. approve the Capital Financing statement detailed at Appendix C page 2

In relation to the Reserves and balances

Make recommendation f. to Council:

- f. To note the movements in Revenue and Capital reserves and balances detailed in Appendix D.

Treasury Management and prudential indicators

Make recommendation g to Council:

- g. to approve the Treasury Management Strategy provided at Appendix E;

## 2. PURPOSE OF THE REPORT/DECISION REQUIRED

- 2.1 The purpose of this report is to present to Cabinet:-
- 2.2 The Budget estimates for 2014/15, revenue and capital, the level of Council tax and the subsequent Treasury Management Strategy.
- 2.3 Members are asked to consider the contextual information presented and to recommend to Council approval of the Council's budget for 2014/15.

## 3. Background

- 3.1 At the meeting on 13<sup>th</sup> January 2014 Cabinet were presented with a detailed report regarding the 2014/15 budget requirement. The report included the following information:

- The setting of a provisional target for the General Fund for 2014/15
- The consultation being undertaken on the council tax setting proposals for 2014/15
- Details of the grant settlement the Council will receive for 2014/15 including specific grants
- Information on the changes introduced by the Government which have impacted on the council tax base setting and the grant funding arrangements

#### 4. **Budget Process - Estimates for 2014/15**

4.1 The budget has been compiled incorporating the key principles of the Council's Medium Term Financial Strategy (MTFS) and a balanced position has been achieved for 2014/15 against a backdrop of continuing reductions in Government funding. The principles approved by Council have assisted in achieving a budget that will continue to support the delivery of the Council's priorities. This will in turn continue the progress towards the 2021 vision as identified in the Corporate Plan.

The principles utilised are:

- Council tax level shall be set each financial year having regard to the prevailing conditions at that time (including availability of freeze grants and referendum levels)
- Resources and un-ring fenced grants will be allocated to fund the delivery of the priority outcomes that residents have said are important to them
- An annual review of fees and charges with inflationary increases having regard to the service contribution towards delivery of the priorities and reflecting market conditions prevailing at that time
- The monies received from New Homes Bonus shall be used to fund the delivery of Council priority projects and initiatives
- Reviewing business rate pooling arrangements for 2014/15 whilst ensuring that pooling remains beneficial to the Council
- Reviewing and updating, on an annual basis, the Efficiencies and Business transformation plan and monitor achieved savings

4.2 The budget assumptions used in compiling the 2014/15 estimates are set out below:

**Table 1**

<b>Inflation Factors</b>	<b>Assumption (%)</b>
Retail Price Index	3.2
Salary Inflation	1
National Business Rate	2.0
Utility Cost increase	5.0
Drainage Board Levies	Ranging from 0 – 2.0
Fuel costs	5.0
Interest Rates	1.0
Salary Vacancy Factor	3.0
Growth in numbers of Band D equivalent properties	0.7

- 4.3. Investment Income - the financial forecasts in respect of investment income over the next four years have been modelled on the following anticipated levels of interest rates (provided by the investment advisors):

**Table 2**

<b>Financial Year</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Base Rate	0.5%	0.5%	1.25%
Money Market Rate (average mid-term point.)	0.8%	1.0%	2.0%

This information has been utilised to anticipate the potential levels of interest income the Council will receive for its investment of the reserve balances. This income will be shared between the General Fund and the Housing Revenue Account. Forecast interest due to the General fund is shown in table 3 below and in Appendix A. Further details of the Council's investment strategy are contained in Appendix E to this report

- 4.4 The General Fund budget proposes a net service expenditure of £15.038M for 2014/15 broken down by priority focus as follows:

**Table 3**

		Original base 2013/14 £'000	Estimated base 2014/15 £'000	Indicative base 2015/16 £'000	Indicative base 2016/17 £'000
1	Grow the Economy	1,410	1,091	1,019	839
2	Clean, Green and Healthy	6,080	5,845	5,800	5,730
3	Leisure, Arts and Culture	2,962	3,116	3,176	3,249
4	Good Housing For All	1,060	979	1,016	1,029
5	Well Run Council	4,107	4,007	4,148	4,026
6	<b>Net Service Expenditure</b>	<b>15,619</b>	<b>15,038</b>	<b>15,159</b>	<b>14,873</b>
7	Net Interest	(245)	(130)	(184)	(234)
8	Minimum Revenue Provision	179	167	160	154
9	Capital Charges	(2,734)	(2,787)	(2,601)	(2,456)
10	Revenue contribution to capital	1,400	1,188	500	500
11	Local CT support grant	107	107	96	89
12	Movement on Reserves	(142)	(413)	(137)	(48)
13	New Homes Bonus	(116)	0	(904)	(1,240)
14	<b>Budget Requirement</b>	<b>14,068</b>	<b>13,170</b>	<b>12,089</b>	<b>11,638</b>

- 4.5 The overall General Fund position for 2014/15 is shown at Appendix A. The total service expenditure (net of direct income) for 2014/15 is estimated at £15.038M. The Revenue contribution to the capital programme is increasing to £1.188M for 2014/15 only as shown at Appendix A of the General Fund position. This additional one-off revenue contribution has been made possible in order to accelerate specific strategic economic regeneration projects during 2014/15 which will further contribute to the delivery of the 'Grow the economy' priority.
- 4.6 The proposed budgets include a small number of additional items that have been identified. These can be summarised as:
- Enterprise Event Week March 2015 – promotion of enterprise and growth £30K
  - Business Support Programme to assist individuals who are exploring the opportunities to establish a new business access to free business advice on a district wide basis - £15K
  - Planning Policy Local Plan and Core Strategy – preparation of Local Plan documents including the resubmission and examination of the Grantham Areas Action Plan and review and examination of the Core Strategy - £107K
  - Building capacity to deliver the Economic Development Strategy - £38K
- 4.7 The Council continues its track record of delivering savings and efficiencies whilst ensuring that resources are allocated to front line services and delivering priority outcomes. In order to maintain a balanced position for 2014/15, a further £431K has been identified in addition to the on-going £1.90M listed at Appendix B.
- 4.8 The proposed Council fees and charges were approved by Cabinet in December 2013, and have been compiled in accordance with the new charges strategy. This sets out the key principles of the methodology to be used when setting fee structures. There have been no changes made to those proposed in December 2013 and the fees and charges will be presented to Council on 3rd March 2014 for approval.

## **5. The District's basic amount of Council Tax 2014/15**

- 5.1 The calculation of the Council's basic amount of Council Tax is made by deducting from the £13.170M budget requirement (including special expense areas but excluding parishes), the external support that will be received from the Government in the form of projected Formula Grant of £6.957M. This includes all specific grants - council support scheme, council tax freeze grant for 2011/12, homelessness grant and the Council's element of the forecast Collection Fund surplus. Government has also announced the provisional settlement for 2015/16 of £5.863M (inclusive of all specific grants). This will mean that for the period 2010/11 to 2015/16, the combined grant will have been reduced by £4.285M or 43% in cash terms.
- 5.2 The Government has announced that a further Council Tax freeze grant in 2014/15 equivalent to a 1% increase is available. The grant for the 2014/15 freeze will be paid to participating authorities in the financial years 2014/15 and 2015/16 – so if an authority freezes in 2014/15, it will also receive grant in 2015/16 in respect of the freeze decision taken in 2014/15 irrespective of its Council Tax

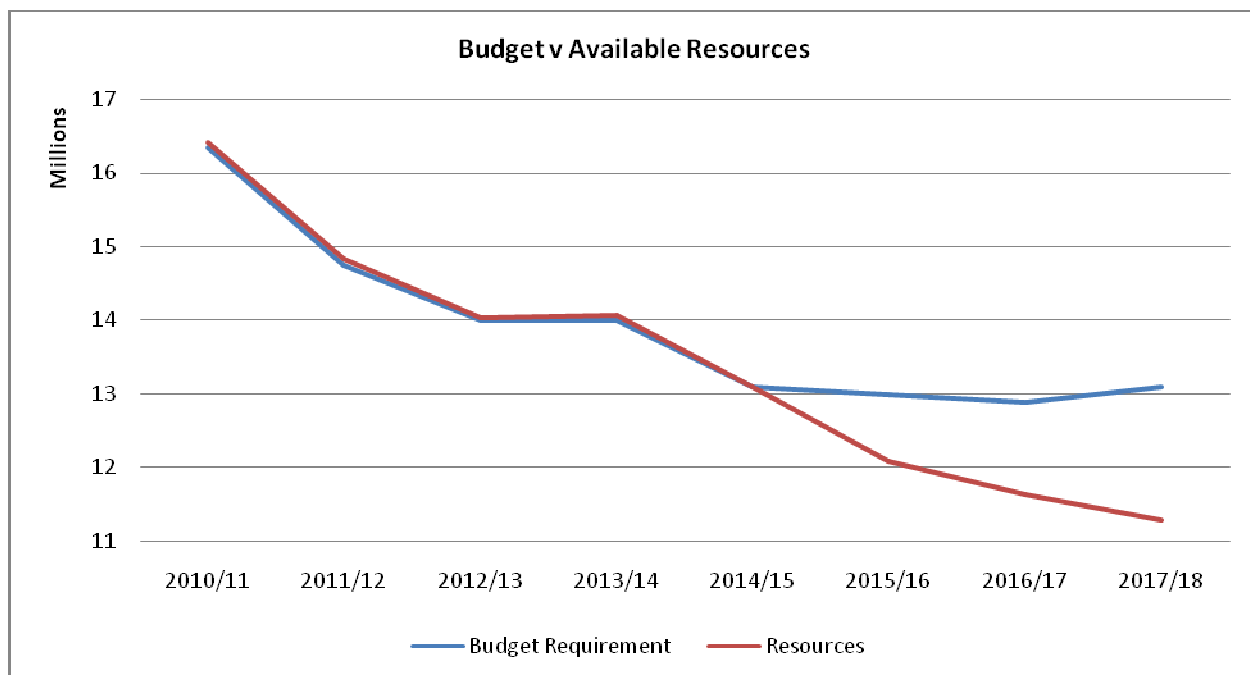
setting decision for 2015/16. At the time of compiling the report no information has been announced by Government with respect to referendum levels but it is widely anticipated that the level will be below the 2% threshold as in previous years.

- 5.3 Consultation has been undertaken with members of the Council's citizens' panel and the wider community via an on-line survey to seek views on a proposal of an increase of 1.75% for the 2014/15 financial year. Over 950 panel members were contacted to seek their views on a council tax increase and 43% have responded to the survey. Of those that responded 71% stated that an increase would be acceptable in order to ensure quality services continue. The remaining respondents suggested the Council should look to find savings and efficiencies in-house rather than to seek an increase.

The on-line survey was available to those residents who are not panel members and 18 took the opportunity to provide some feedback on the proposal. Of the 18, 27% were in favour of an increase with the remaining again suggesting the Council should find savings rather than increase Council Tax for the forthcoming financial year.

## **6. Future outlook**

- 6.1 Budgets have been prepared for a three year period with indicative budgets prepared for 2015/16 and 2016/17. Provisional settlement figures for 2015/16 have been announced by Government which show a continuing reduction in the amount of Revenue Support Grant that will be provided by £1.2M. It is anticipated that reductions will continue beyond 2015/16 so the Council is responding by accelerating its savings and transformation proposals, building on the savings and new ways of working that have already achieved significant cost reductions and efficiencies. The Council has made the decision, this year, to join the Lincolnshire business rates pool. The pooling mechanism allows the financial benefits of local business growth to be retained locally rather than being paid to the Government in the form of a levy payment. Early forecast predictions estimate that this could generate in the region of £160K per annum based on an assumed level of economic growth.
- 6.2 The funding gap that is anticipated to emerge beyond 2014/15 is detailed in the Council's MTFS and shows a potential gap of £1.6M increasing to £2.5M by 2017/18 (cumulatively). This gap in funding can now be updated following the incorporation of the MTFS principles into the budget approach, identifying the transformation savings and the anticipated business rate pooling growth. The gap for 2015/16 is now forecast to be £900K increasing to £1.8M in 2017/18.



Work will now continue during the year to bridge the budget gap including working with our citizens panel to establish what services are important to our residents, implementing a service review programme to establish the most cost effective way of delivering the services, utilising customer feedback, use of New Homes Bonus to fund priorities and further development of the transformation plan.

## 7. **Reserves and Balances**

7.1 The Local Government Act 2003 requires the Chief Financial Officer, (section 151 officer), to report on the adequacy of financial reserves when consideration is given to the General Fund budget requirement for the year. Under the Local Government Finance Act 1988, all balances held by the Council are at the direct disposal of the General Fund with the exception of the Housing Revenue Account balances, the Collection Fund or any funds held in trust. A statement showing the forecast balances of revenue and capital reserves and their movements is provided at Appendix D.

During the course of the budget preparation work Cabinet has requested a review of the reserves and their intended purpose to ensure they are focussed on supporting the delivery of the priorities of the Council. The following are a summary of the key changes made to the reserves:

- Destination SK reserve – it is proposed to increase the reserve level to £100k in order to contribute towards the promotion of South Kesteven as a destination of choice.
- Formation of a £1M reserve to financially contribute towards the delivery of key economic development and town centre regeneration projects.
- Transformation reserve - formation of a new reserve to fund investments in service change and alternate service delivery models.

For 2013/14 the Council has introduced a new reserve entitled 'Business Rate and Council Tax Support Volatility Reserve' which has been created to cushion the Authority against volatility in the collection of local business rates and unforeseen

demand on the localised Council Tax support scheme. The amount in the reserve is the equivalent amount between the projected business rates collectable and the level when the Government safety net mechanism will apply. This reserve will also receive the first year's projected surplus that will be generated following the Council decision to join the Lincolnshire business rate pool. However this reserve, including the required financial level, will be reviewed over the period of the MTF5.

- 7.2 The General Fund working balance is required so that the Council has sufficient funds available to meet its cash flow requirements and to protect services against unforeseen events that have a financial consequence and are not included in the budget framework. The balance has been reviewed and will be reduced from £2.370M to £1.870M in accordance with the reducing net expenditure and the £500K will be utilised to contribute towards the transformation reserve (referred to at paragraph 7.1).

## **8. Capital Programme 2014/15 - 2018/19**

- 8.1 The capital programme is focussed on the delivery of priority projects particularly in relation to Grow the Economy – economic regeneration. Full details are provided at Appendix C and it shows an ambitious programme of over £12.5M over the next 5 year period. This level of investment in the local area will provide a significant economic boost and ensure the Council continues its track record of delivering its priorities. The financing of the programme is also provided and demonstrates the Council can afford to fund the programme over the period without the need for external borrowing.

## **9. Prudential Code**

- 9.1 The Council complies with the Prudential Code for controlling Local Government capital. The key objectives of the code are to ensure that:

- Capital Investment Plans are affordable, prudent and sustainable
- All external borrowings and other long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudence, affordability and sustainability
- The Local Authority is accountable for decisions made
- It supports local strategic planning, local asset management planning and proper option appraisal.

- 9.2 The Council's financial planning demonstrates the affordability of the capital programme and the 2014/15 estimates have been prepared in the context of these plans and controls.

## **10. Treasury Management and Investment Strategy**

- 10.1 In accordance with the requirements of Local Government Act 2003 a Treasury Management Strategy is provided within Appendix E outlining the Council's prudential indicators for 2014/15 – 2016/17 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements as required by the Local Government Act 2003.

- The reporting of the prudential indicators setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix E Section 1);
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (Appendix E Section 1);
- The treasury management strategy statement which sets out how the Council's treasury service will support the capital decisions taken above in accordance with the CIPFA Code of Practice on Treasury Management (Appendix E Section 2);
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss (in accordance with the CLG investment guidance) (Appendix E Section 3);

10.2 A review of the Treasury Management strategy has taken place in conjunction with the Council's treasury management advisors to ensure the strategy provides a framework for effective, efficient treasury management activity and ensure the Council's exposure to risk is minimised. Whilst it is widely acknowledged that exposure to risk cannot be removed, good governance and scrutiny arrangements help to ensure the exposure is minimised. The Council's arrangements in respect of robust monitoring and reporting of treasury management activities are based on best practice. Specifically, Governance and Audit Committee ensure the governance and scrutiny function is undertaken on behalf of the Council and during the past year has received specific treasury management training and receives regular half yearly reporting information.

### **Collection Fund**

- 11.1 All relevant transactions associated with Council Tax and Non Domestic Business Rates are shown in the Collection Fund.
- 11.2 To comply with CIPFA's Best Value Accounting Code of Practice authorities are required to forecast the outturn on the Collection Fund as at 31<sup>st</sup> March each year in order to distribute this amount to precepting bodies in the following financial year (together with any remaining unallocated surplus from previous years).
- 11.3 For this financial year SKDC has forecast the outturn for 2013/14 and in 2014/15 will distribute this forecast together with the remaining surplus from the 2012/13 outturn. Remaining surplus (or deficit) from previous years occurs when there is a difference between the forecast for that year and the actual outturn.
- 11.4 Any surplus or deficit arising from Council Tax transactions is shared between South Kesteven District Council, Lincolnshire County Council and Lincolnshire Police (the precepting bodies) in proportion to their demands on the Collection Fund. Any surplus or deficit arising from Non Domestic Business Rates is shared between South Kesteven District Council, Lincolnshire County Council and Central Government in the ratio 40:10:50 respectively.

- 11.5 The accumulated surplus on the Collection Fund at 31<sup>st</sup> March 2013 was £300K and £317K will have been distributed during 2013/14. The forecast outturn for 2013/14 is a surplus of £353K. A breakdown of the £353K which will be distributed during 2014/15 is:

**Table 4.**

<b>Precepting Body</b>	<b>Distribution (£)</b>
South Kesteven District Council	91,331
Central Government	85,976
Lincolnshire CC	150,788
Lincolnshire Police	24,614
<b>Total Surplus on Collection Fund</b>	<b>352,709</b>

- 11.6 With respect to second homes income, Lincolnshire County Council and the Police Authority confirm that the additional income will be utilised within the district on agreed schemes that are of mutual benefit. The amount estimated from the County Council for 2014/15 is £117K and from the Police Authority is £20K. It is proposed to spend the allocation on supporting the delivery of disabled facilities grants and community safety.

## **12 Statement by Chief Finance Officer (S151 officer)**

- 12.1 The 2014/15 Budget and indicative budgets for 2015/16 to 2016/17 have been drawn up to take account of the Council's various strategies, policies and the financial context, in particular:

- The Corporate Plan – 2021 Vision
- The Medium Term Financial Strategy (MTFS)
- Service Strategies and Plans
- Asset Management Strategy
- The economic context and recent grant announcements
- The 2013/14 forecast outturn

The MTFS will continue to be reviewed and updated following national policy announcements, in particular any further changes to funding arrangements. This is necessary as the Council progresses its work to close the budget gap referred to at paragraph 6.2 in the report.

- 12.2 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer must report on:

- (a) the robustness of the estimates made for the purposes of the budget calculations and;
- (b) the adequacy of the proposed financial reserves

### 12.3 **Comments of Financial Services**

12.4 In recommending the budget to the Council, the Cabinet must take account of the advice of the Chief Finance Officer in respect of the above. For 2014/15 it can be confirmed that the budget presented to the Cabinet is robust in its formulation and the level of reserves is adequate for the organisation.

### 13. **Risks to the budget**

13.1 In formulating my opinion a number of risks and factors have been taken into account.

- a. The **grant settlement from Government for future years** has been announced for 2014/15 and a provisional amount for 2015/16. It is anticipated that further cuts will be announced in the next spending review following the General Election. The Council will need to meet the shortfall by growing both its business base and stimulating the conditions for housing growth.
- b. The impact of the **economic climate** will place higher demand on particular services in relation to social care and well being, specifically benefit advice and support and homelessness. This may create additional resource pressures in these service areas.
- c. **Investment Income and fees and charges** – the forecast in respect of investment income is included in the budget proposals and shows an improvement over the three year period. Given the current volatility in respect of the economic market there is a risk of investment income not achieving the budgeted level. A number of fee income budgets have been included in the proposed budgets which, in themselves, carry a level of risk of not being achieved due to the economic climate.

### 14 **Comments of Legal and Democratic Services**

The budget forms part of the Council's Budgetary Framework. Members should have regard to the comments of the Strategic Director – Corporate Focus as the Council's Chief Financial Officer which are set out in section 12 above when making their recommendations to Council in accordance with the Local Government Act 2003. Any budget must be set in accordance with the Budget and Policy Framework Procedure Rules as set out at part 4 of the Constitution.

### 15 **Appendices:**

Appendix A – Revenue Estimate 2014/15 and indicative budgets 2015/16,  
and 2016/17

Appendix B – Savings and Efficiencies

Appendix C – Capital Programme

Appendix D – Reserves and balances

Appendix E – Treasury Management Strategy 2014/15

**SUMMARY OF GENERAL FUND ESTIMATES 2014/15**

Appendix A

	2013/14 Original Base <u>£'000</u>	2014/15 Estimate Base <u>£'000</u>	2015/16 Indicative Base <u>£'000</u>	2016/17 Indicative Base <u>£'000</u>
Grow The Economy	1,410	1,091	1,019	839
Keep Sk Clean, Green & Healthy	6,080	5,845	5,800	5,730
Promote Leisure, Arts & Culture	2,962	3,116	3,176	3,249
Support Good Housing For All	1,060	979	1,016	1,029
Well Run Council	4,107	4,007	4,148	4,026
<b><u>NET COST OF SERVICES</u></b>	<b><u>15,619</u></b>	<b><u>15,038</u></b>	<b><u>15,159</u></b>	<b><u>14,873</u></b>
Interest and Investment Income	(275)	(150)	(200)	(250)
Interest Payable	30	20	16	16
Minimum Revenue Provision	179	167	160	154
Depreciation Charged to Revenue Accounts	(2,734)	(2,787)	(2,601)	(2,456)
Revenue Contribution to Capital	1,400	1,188	500	500
Local Council Tax Support Scheme Grant (Parish and SEA's)	107	107	96	89
Movement on Reserves				
-Net Movement in General Fund Specific Reserves	(142)	(413)	(137)	(48)
-New Homes Bonus	(116)	0	(904)	(1,240)
<b><u>BUDGET REQUIREMENT - GENERAL FUND</u></b>	<b><u>14,068</u></b>	<b><u>13,170</u></b>	<b><u>12,089</u></b>	<b><u>11,638</u></b>
Formula Grant	(7,761)	(6,957)	(5,863)	(5,226)
Council Tax Freeze Grant	(157)	(60)	(60)	(60)
Collection Fund Surplus	(37)	(91)	0	0
<b><u>DISTRICT COUNCIL TAX REQUIREMENT (EXCL PARISHES)</u></b>	<b><u>6,113</u></b>	<b><u>6,062</u></b>	<b><u>6,166</u></b>	<b><u>6,352</u></b>
		0	0	0
SKDC Budget Requirement	5,582	5,547	5,642	5,813
Bourne Special Expense Area	24	25	25	26
Deepings Special Expense Area	13	13	13	13
Grantham Special Expense Area	419	400	408	420
Langtoft Special Expense Area	8	8	8	8
Stamford Special Expense Area	67	69	70	72
Parish Precepts	1,440	0	0	0
<b><u>COUNCIL TAX REQUIREMENT (INCL PARISHES)</u></b>	<b><u>7,553</u></b>	<b><u>6,062</u></b>	<b><u>6,166</u></b>	<b><u>6,352</u></b>

**BAND D CHARGES 2014/15****APPENDIX A**

	<b><u>2013/14 Original Base</u></b>	<b><u>2014/15 Estimate Base</u></b>	<b><u>2015/16 Indicative Base</u></b>	<b><u>2016/17 Indicative Base</u></b>
Band D Properties on which charges are based	43,786.7	43,522.4	43,827.1	44,265.3
Relating to Special Expense Areas				
Bourne Special Expense Area Charge	4,686.1	4,801.9	4,835.5	4,883.8
Deepings Special Expense Area Charge	4,270.4	4,249.4	4,279.1	4,321.9
Grantham Special Expense Area Charge	10,295.8	9,823.8	9,922.1	10,021.3
Langtoft Special Expense Area Charge	714.2	734.2	739.3	746.7
Stamford Special Expense Area Charge	6,513.9	6,621.4	6,667.8	6,734.5
<b><u>BAND D CHARGES</u></b>				
South Kesteven District Council Charge	£127.47	£127.47	£128.75	£131.32
Bourne Special Expense Area Charge	£5.22	£5.22	£5.27	£5.38
Deepings Special Expense Area Charge	£2.97	£2.97	£3.00	£3.06
Grantham Special Expense Area Charge	£40.68	£40.68	£41.09	£41.91
Langtoft Special Expense Area Charge	£10.53	£10.53	£10.64	£10.85
Stamford Special Expense Area Charge	£10.35	£10.35	£10.45	£10.66
SKDC including special expenses	£139.62	£139.62	£141.02	£143.84

**SAVINGS AND EFFICIENCIES**

<b>Service Description</b>	<b>Amount in 2014/15 (£)</b>
1 Invest to save payback - savings achieved from Invest to Save initiatives	102,000
2 Leisure Centres - Solar panel feed in tariffs and management fee reductions	165,000
3 Vehicle Maintenance - consumable savings due to purchase of new fleet	50,000
4 Internal Audit - Contract savings	10,000
6 Utilities - Contract review	42,000
7 Centralisation of budgets such as stationery and advertising	25,000
8 Grounds maintenance - Contract review	37,000
9 <b>Total</b>	<b>431,000</b>
<b>Previous Years savings carried forward (material items)</b>	
1 Insurance premium – contract review and change in internal premiums	92,000
2 Photocopier contract – review of existing arrangements and rationalisation of hardware requirements	22,000
3 Stamford civics contract – street scene service won the re-tender for the provision of this service on behalf of LCC	50,000
4 Audit Fees – following abolishment of Audit Commission and provision of new external auditors	45,000
5 Cash Collection Contract renewal	49,000
6 Environment Services Restructure	42,000
7 Review of staffing and management arrangements	300,000
8 Centralised ICT	22,000
9 Development and Growth Restructure	16,000
10 Budget Reduction Work	226,000
11 Contribution to Green Waste Service	680,000
12 Vacancy Management	358,000
13 <b>Total</b>	<b>1,902,000</b>
14 <b>Grand Total</b>	<b>2,333,000</b>

GENERAL FUND

Description		2013/2014 Forecast Outturn £'000	2014/2015 Updated Base £'000	2015/2016 Indicative Base £'000	2016/2017 Indicative Base £'000	2017/2018 Indicative Base £'000	2018/2019 Indicative Base £'000
<b>GROW THE ECONOMY</b>							
Town Centre Development							
1	Town Centre Projects - Bourne Core Area	1,195	-	-	-	-	-
2	Town Centre Projects - Economic Development	-	4,035	1,900	168	-	-
3	Shop front scheme	155	40	-	-	-	-
4	Serviced Land	1,019	-	-	-	-	-
5	Strategic Land Acquisition	-	450	450	-	-	-
		<b>2,369</b>	<b>4,525</b>	<b>2,350</b>	<b>168</b>	-	-
<b>SUPPORT GOOD HOUSING FOR ALL</b>							
6	Housing Grant Assistance	156	370	350	210	-	-
7	Disabled Facilities Grant	500	290	290	290	-	-
		<b>656</b>	<b>660</b>	<b>640</b>	<b>500</b>	-	-
<b>PROMOTE LEISURE, ARTS &amp; CULTURE</b>							
Provision for Existing Assets							
8	Bourne Leisure Centre Improvements	24	-	-	-	-	-
9	Stamford Arts Centre - Heating System Alterations	85	-	-	-	-	-
10	Stamford Arts Centre - lift renewal	20	-	-	-	-	-
11	Guildhall Arts Centre - Replacement of Outside Lighting	-	12	-	-	-	-
12	Wyndham Park, Grantham - Improvement Works	-	40	-	-	-	-
13	Replacement of Digital Cinema Projector - Stamford Arts Centre	-	33	-	-	-	-
		<b>129</b>	<b>85</b>	-	-	-	-
<b>KEEP SK CLEAN, GREEN &amp; HEALTHY</b>							
Waste Management							
14	Street Scene Vehicle Procurement	287	577	320	577	816	763
15	Wheelie Bin Replacements	110	90	92	94	96	97
16	Cycle/Footpath Repair Maintenance	30	40	-	-	-	-
17	Wyndham Park footpath and Kerb Improvements	-	25	25	25	-	-
18	Energy Efficient Lighting installation - Welham Street	-	14	-	-	-	-
19	Low voltage panel replacement- Grantham Council offices	25	-	-	-	-	-
		<b>452</b>	<b>746</b>	<b>437</b>	<b>696</b>	<b>912</b>	<b>860</b>
<b>WELL RUN COUNCIL</b>							
20	ICT Infrastructure	75	20	40	-	20	-
		<b>75</b>	<b>20</b>	<b>40</b>	-	<b>20</b>	-
<b>21</b>	<b>TOTAL GENERAL FUND CAPITAL PROGRAMME</b>	<b>3,681</b>	<b>6,036</b>	<b>3,467</b>	<b>1,364</b>	<b>932</b>	<b>860</b>

## SUMMARY FINANCING STATEMENT

	Description	2013/2014 Forecast Outturn £'000	2014/2015	2015/2016	2015/2016	2016/2017	2017/2018
			Estimate Base £'000	Indicative Base £'000	Indicative Base £'000	Indicative Base £'000	Indicative Base £'000
1	Grow the economy	2,369	4,525	2,350	168	-	-
2	Support good housing for all	656	660	640	500	-	-
3	Promote leisure, arts and culture	129	85	-	-	-	-
4	Keep SK clean, green and healthy	452	746	437	696	912	860
5	Well run council	75	20	40	-	20	-
<b>6</b>	<b>TOTAL - CAPITAL PROGRAMME</b>	<b>3,681</b>	<b>6,036</b>	<b>3,467</b>	<b>1,364</b>	<b>932</b>	<b>860</b>
	<b>GENERAL FUND FINANCED BY:</b>						
7	Supported Borrowing	-	-	-	-	-	-
8	Unsupported Borrowing	-	-	-	-	-	-
9	Specific Reserve - Capital	-	1,000	-	-	-	-
10	Usable Capital Receipts	1,755	3,566	1,441	686	422	349
11	Capital Grants and Contributions	-	-	-	-	-	-
	- Disabled Facility Grant	290	290	290	-	-	-
	- Regional Housing Allowance	156	61	-	-	-	-
12	Direct Revenue Financing	-	-	-	-	-	-
	- Cemetery works	5	5	5	5	5	6
	- Wyndham Park Water Fountain- SEA	-	5	5	5	5	5
	- ICT reserve	75	-	-	-	-	-
	- New Homes Bonus	-	-	1,226	168	-	-
	- Contribution from Revenue	1,400	1,109	500	500	500	500
<b>13</b>	<b>TOTAL - GF CAPITAL PROGRAMME</b>	<b>3,681</b>	<b>6,036</b>	<b>3,467</b>	<b>1,364</b>	<b>932</b>	<b>860</b>

## GENERAL FUND RESERVES STATEMENT AS AT 31st MARCH 2017

	Balance as at 31 March 2013 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2014 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2015 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2016 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2017 £'000
<b>General Fund</b>									
<b>Revenue Reserves</b>									
Service Specific Funds	253	(215)	38	(38)	0	0	0	0	0
Capacity Building, Priority Setting and Service Improvement Reserve									
Destination SK	61	(61)	0	100	100	0	100	0	100
Events and Festivals	197	(22)	175	(75)	100	0	100	0	100
Asset Rationalisation	500	0	500	(500)	0	0	0	0	0
Apprenticeships	100	(100)	0	0	0	0	0	0	0
Retro Fit	500	0	500	(500)	0	0	0	0	0
Broadband infrastructure	550	0	550	0	550	0	550	0	550
Residents Parking Scheme	50	0	50	0	50	0	50	0	50
Waste Management round reviews	142	(142)	0	0	0	0	0	0	0
Maintenance Reserve	100	(100)	0	0	0	0	0	0	0
PDG work programme funding	57	0	57	0	57	0	57	0	57
ICT investment	275	(75)	200	0	200	0	200	0	200
Transformation Programme	0	0	0	1,000	1,000	0	1,000	0	1,000
BR and CTS volatility Reserve	0	313	313	(313)	0	160	160	160	320
Community Based Initiatives	0	232	232	0	232	0	232	0	232
Other priority and service improvements	1,784	3	1,787	(600)	1,187	0	1,187	(327)	860
	4,316	48	4,364	(888)	3,476	160	3,636	(167)	3,469
New Homes Bonus Reserve	1,955	1,932	3,887	2,679	6,566	1,510	8,076	1,842	9,918
Invest to Save	500	0	500	(130)	370	(50)	320	0	320
Insurance Reserve	556	0	556	0	556	0	556	0	556
Pensions Reserve - Former Employees	307	(66)	241	(68)	173	(68)	105	(68)	37
- Current Employees	1,486	0	1,486	(506)	980	(604)	376	(376)	0
Building Control	(52)	(57)	(109)	(27)	(136)	(19)	(155)	20	(135)
SEA Reserve	98	(37)	61	0	61	0	61	0	61
Total General Revenue Reserves	9,419	1,605	11,024	1,022	12,046	929	12,975	1,251	14,226
<b>Government Grants Received</b>	684	(261)	423	(38)	385	0	385	0	385
<b>Working Balance</b>	2,370	0	2,370	(500)	1,870	0	1,870	0	1,870
<b>Total Revenue Reserves</b>	<b>12,472</b>	<b>1,344</b>	<b>13,816</b>	<b>484</b>	<b>14,300</b>	<b>929</b>	<b>15,229</b>	<b>1,251</b>	<b>16,480</b>
<b>Capital Reserve</b>									
LAMS Reserve	28	0	28	0	28	0	28	0	28
Regional Housing Grant	217	(156)	61	(61)	0	0	0	0	0
General Fund Capital Reserve	0	0	0	0	0	0	0	0	0
St Peter's Hill Development	-	1,000	1,000	(1,000)	0	0	0	0	0
Useable Capital Receipts Reserve	6,391	(783)	5,608	(1,312)	4,296	(1,041)	3,255	(486)	2,769
<b>Total Capital Reserves</b>	<b>6,636</b>	<b>61</b>	<b>6,697</b>	<b>(2,373)</b>	<b>4,324</b>	<b>(1,041)</b>	<b>3,283</b>	<b>(486)</b>	<b>2,797</b>
<b>Total General Fund Reserves</b>	<b>19,109</b>	<b>1,405</b>	<b>20,514</b>	<b>(1,889)</b>	<b>18,625</b>	<b>(112)</b>	<b>18,513</b>	<b>765</b>	<b>19,278</b>

## Treasury Management Strategy Report 2014/15

### INTRODUCTION

#### Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

*"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

#### Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy (this report)** - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

**A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Governance and Audit** – As part of the committees terms of reference the above reports are presented to them for consideration and scrutiny during the year. The Committee also have delegated authority to approve in year amendments to the Treasury Management Strategy. The committee have also considered and support the investment strategy for 2014/15.

### **Treasury Management Strategy for 2014/15**

The strategy for 2014/15 covers two main areas:

#### Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

#### Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

### **Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been undertaken by members of the Governance and Audit during in December 2012 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

### **Treasury management consultants**

The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

**SECTION 1 - THE PRUDENTIAL INDICATORS 2014/15 to 2016/17****Introduction**

1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

**The Capital Expenditure Plans**

2. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

£m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
Capital Expenditure				
Non-HRA	3.681m	6.036m	3.467m	1.364m
HRA	5.974m	6.858m	3.303m	3.637m
<b>Total</b>	<b>9.475m</b>	<b>12.894m</b>	<b>6.770m</b>	<b>5.001m</b>

3. Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.
4. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need

£m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
Capital Expenditure				
Non-HRA	3.681m	6.036m	3.467m	1.364m
HRA	5.974m	6.858m	3.303m	3.637m
Financed by:				
Capital receipts reserve	1.755m	3.487m	1.441m	0.686m
Capital grants	0.446m	0.351m	0.290m	0.000m
Capital reserves	4.794m	5.858m	2.303m	2.637m
Revenue	2.480m	3.198m	2.736m	1.678m
Net financing need for the year	0	0	0	0

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

5. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.
6. Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR
7. The Council is asked to approve the CFR projections below:

£m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
<b>Capital Financing Requirement</b>				
CFR – Non Housing	4.293m	4.121m	3.956m	3.798m
CFR - Housing	123.811m	123.811m	123.811m	123.811m
Total CFR	128.104m	127.932m	127.767m	127.609m
Movement in CFR	(0.179m)	(0.172m)	(0.165m)	(0.158m)

£m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
<b>Movement in CFR represented by</b>				
Net Financing need for the year (above)	0.000m	0.000m	0.000m	0.000m
Less MRP/VRP and other financing movements	(0.179m)	(0.172m)	(0.165m)	(0.158m)
Movement in CFR	(0.179m)	(0.172m)	(0.165m)	(0.158m)

8. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). The MRP is the reason for the negative year on year movements in the CFR forecasts shown above.
9. CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.
10. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:
  - **Existing practice** - MRP will follow the existing practice outline in former CLG Regulations.

11. From 1 April 2008 for all new unsupported borrowing the MRP policy will be:

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

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

12. For authorities who participate in LAMS using the cash backed option, the mortgage lenders require a five year deposit from the local authority to match the five year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application

### **Core Funds and Expected Investment Balances**

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

Year End Resources £m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
Fund balances	11.446m	12.430m	13.359m	14.610m
Capital receipts	11,206m	9.804m	11.214m	14.061m
HRA reserve	9.977m	7.937m	6.937m	5.937m
Major Repairs Reserve	4.337m	5.987m	9.801m	13.479m
<b>Total Core Funds</b>	<b>36.967m</b>	<b>36.519m</b>	<b>41.311m</b>	<b>48.088m</b>
Working Capital*	<b>2.370m</b>	<b>1.870m</b>	<b>1.870m</b>	<b>1.870m</b>
Expected Investments	<b>36.337m</b>	<b>38.029m</b>	<b>43.181m</b>	<b>49.958m</b>

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

**Affordability Prudential Indicators**

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

15. **Actual and Estimates of the ratio of financing costs to net revenue stream –** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2013/14 Revised	2014/15 Estimated	2015/16 Estimated	2016/17 Estimated
Non-HRA	(1.74%)	(0.99%)	(1.52%)	(2.01%)
HRA	14.95%	14.72%	13.34%	12.04%

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

The Prudential Code 2013 acknowledges that the “Financing costs to Net Revenue Stream” indicator may be more problematic for some authorities regarding the level of government support for capital spends.

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

18. **Incremental impact of capital investment decisions on the Band D Council Tax**

£	2013/14 Revised	2014/15 Estimated	2015/16 Estimated	2016/17 Estimated
Variance change in original to revised spending programme	(£2.35)	£2.28	£1.16	(£0.03)

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

**20. Incremental impact of capital investment decisions Housing Rent levels**

£	2013/14 Revised	2014/15 Estimated	2015/16 Estimated	2016/17 Estimated
Variance change in original to revised spending programme	£21.32	£86.59	(£58.69)	£2.92

21. This indicator shows the revenue impact on any newly approved schemes if there was no rent restructuring in place. However, there is no actual impact on rent levels through any decisions on capital investments due the operation of rent restructuring currently.

The Prudential Code 2013 has clarified that this indicator should relate to the identification and isolation of those decisions members make to the existing capital programme. For instance, the withdrawal of a scheme should be reflected as it may lead to reduced costs and a lower impact on the Council Tax or HRA rents.

**SECTION 2 - Borrowing****Debt and Investment Projections 2013/14 – 2016/17**

22. The capital expenditure plans set out in Section 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

**Current Portfolio Position**

23. The Councils revised treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting any over or under borrowing.

£m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
<b>External Debt</b>				
Existing Debt at 1 April	(120.969m)	(116.722m)	(113.487m)	(109.765m)
Expected change in debt	1.025m	0.013m	0.500m	0.000m
HRA Settlement	3.222m	3.222m	3.222m	3.222m
<b>Debt at 31 March</b>	<b>(116.722m)</b>	<b>(113.487m)</b>	<b>(109.765m)</b>	<b>(106.543m)</b>
<b>CFR</b>	128.104m	127.932m	127.767m	127.609m
<b>Under / (over) borrowing</b>	11.382m	14.445m	18.002m	21.066m
<b>Total Investments at 31 March</b>				
Investment change	<b>39.337m</b>	<b>38.029m</b>	<b>43.841m</b>	<b>49.958m</b>
<b>Net Debt</b>	<b>(77.385m)</b>	<b>(75.458m)</b>	<b>(66.584m)</b>	<b>(56.586m)</b>

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

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

**Limits to Borrowing Activity**

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

Operational Boundary £m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
Debt	2.539m	1.513m	1.500m	1.000m
+ HRA Reform	118.430m	115.209m	111.987m	108.765m
Other long term liabilities	0.000m	0.000m	0.000m	0.000m
<b>Total</b>	<b>120.969m</b>	<b>116.722m</b>	<b>113.487m</b>	<b>109.765m</b>

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

28. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

29. The Council is asked to approve the following Authorised:

Authorised limit £m	2013/14 Revised £	2014/15 Estimated £	2015/16 Estimated £	2016/17 Estimated £
Debt	18.000m	18.000m	18.000m	18.000m
+ HRA Reform	118.430m	115.209m	111.987m	108.765m
Other long term liabilities	0.000m	0.000m	0.000m	0.000m
<b>Total</b>	<b>136.430m</b>	<b>133.209m</b>	<b>129.987m</b>	<b>116.765m</b>

**Prospects for Interest Rates**

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

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
<b>Dec 2013</b>	<b>0.50</b>	<b>2.50</b>	<b>4.40</b>	<b>4.40</b>
<b>Mar 2014</b>	<b>0.50</b>	<b>2.50</b>	<b>4.40</b>	<b>4.40</b>
<b>Jun 2014</b>	<b>0.50</b>	<b>2.60</b>	<b>4.50</b>	<b>4.50</b>
<b>Sep 2014</b>	<b>0.50</b>	<b>2.70</b>	<b>4.50</b>	<b>4.50</b>
<b>Dec 2014</b>	<b>0.50</b>	<b>2.70</b>	<b>4.60</b>	<b>4.60</b>
<b>Mar 2015</b>	<b>0.50</b>	<b>2.80</b>	<b>4.60</b>	<b>4.70</b>
<b>Jun 2015</b>	<b>0.50</b>	<b>2.80</b>	<b>4.70</b>	<b>4.80</b>
<b>Sep 2015</b>	<b>0.50</b>	<b>2.90</b>	<b>4.80</b>	<b>4.90</b>
<b>Dec 2015</b>	<b>0.50</b>	<b>3.00</b>	<b>4.90</b>	<b>5.00</b>
<b>Mar 2016</b>	<b>0.50</b>	<b>3.10</b>	<b>5.00</b>	<b>5.10</b>
<b>Jun 2016</b>	<b>0.75</b>	<b>3.20</b>	<b>5.10</b>	<b>5.20</b>
<b>Sep 2016</b>	<b>1.00</b>	<b>3.30</b>	<b>5.10</b>	<b>5.20</b>
<b>Dec 2016</b>	<b>1.00</b>	<b>3.40</b>	<b>5.10</b>	<b>5.20</b>
<b>Mar 2017</b>	<b>1.25</b>	<b>3.40</b>	<b>5.10</b>	<b>5.20</b>

31. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.

32. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not endure much beyond 2014. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

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

A more detailed economic outlook for both the Global and UK economy is included in Annex 2.

**Borrowing Strategy 2013/14 – 2015/16**

33. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing excluding the HRA reform settlement
34. Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
35. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.
36. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

**Treasury Management Limits on Activity**

37. There are three debt related treasury activity limits. The purpose of these are 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. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:
- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments
  - Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
  - Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
38. The Council is asked to approve the limits:

£m	2013/14	2014/15	2015/16	2016/17
<b>Interest rate Exposures</b>				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	<b>125.000m</b>	<b>125.000m</b>	<b>125.000m</b>	<b>125.000m</b>
Limits on variable interest rates based on net debt	<b>40.000m</b>	<b>40.000m</b>	<b>40.000m</b>	<b>40.000m</b>
<b>Maturity Structure of fixed interest rate borrowing 2013/14</b>				
		Lower	Upper	Upper
Under 12 months		0%	<b>40%</b>	<b>0%</b>
12 months to 2 years		0%	<b>40%</b>	<b>40%</b>
2 years to 5 years		0%	<b>100%</b>	<b>100%</b>
5 years to 10 years		0%	<b>100%</b>	<b>100%</b>
10 years and above		0%	<b>100%</b>	<b>100%</b>

### Policy on Borrowing in Advance of need

39. The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
40. The Head of Finance may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Head of Finance will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.
41. It would not look to borrow more than 24 months in advance of need.
42. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### Debt Rescheduling

43. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
44. The reasons for any rescheduling to take place will include:
  - the generation of cash savings and / or discounted cash flow savings;
  - helping to fulfil the treasury strategy;
  - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
45. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

**SECTION 3 - ANNUAL INVESTMENT STRATEGY**

**Investment Policy and Counterparty Selection Criteria**

46. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.
47. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita Asset Services ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
48. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.
49. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
50. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.
51. Investment instruments identified for use in the financial year are listed in annex 3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

**Creditworthiness policy**

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

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

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

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

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

54. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

55. All credit ratings are monitored daily and the Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
56. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.
57. The Local Authority Mortgage Scheme (LAMS) – The Council is currently participating in the cash backed mortgage scheme which requires the Council to place a matching five year deposit to the life of the indemnity. This investment is an integral part of the policy initiative and is outside the criteria above.

### Investment Strategy

58. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
59. **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:
- 2013/14                      0.50%
  - 2014/15                      0.50%
  - 2015/16                      0.50%
  - 2016/17                      1.25%
60. There are upside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.
61. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:
- 2014/15                      0.50%
  - 2015/16                      0.50%
  - 2016/17                      1.00%
  - 2017/18                      2.00%
62. **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 364 days			
£m	2014/15	2015/16	2016/17
<b>Principal sums invested &gt; 364 days</b>	<b>£10.000m</b>	<b>£11.000m</b>	<b>£12.000m</b>

64. **Risk Benchmarking** – A development in the revised Codes and the CLG Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature.

65. These benchmarks are simple guides to maximise risk, and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

66. **Security** - The Council’s maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.1% historic risk of default when compared to the whole portfolio.

67. **Liquidity** – In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.25m
- Liquid short term deposits of at least £5m available with a week’s notice.
- Weighted Average Life benchmark is expected to not exceed a maximum of 1 year.

68. **Yield - Local measures of yield benchmarks are :**

- Investments – Internal returns above the 7 day LIBID rate
- Investments – External fund managers - returns 10% above 7 day compounded LIBID.

69. **And in addition that the security benchmark for each individual year is:**

	1 year	2 years	3 years	4 years	5 years
<b>Maximum</b>	<b>0.08%</b>	<b>0.22%</b>	<b>0.37%</b>	<b>0.52%</b>	<b>0.70%</b>

Note: This benchmark is an average risk of default measure (potential loss on investments), and would not constitute an actual expectation of loss against a particular investment.

**End of year Investment Report**

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

**Policy on Use of External Service Providers**

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

72. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
73. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## Annex 1 - Interest Rate Forecast 2013/2015

Sector's Interest Rate View														
	Now	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
<b>Sector's Bank Rate View</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 M onth LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%
6 M onth LIBID	0.54%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%
12 M onth LIBID	0.88%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%
5yrPW IB Rate	1.84%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yrPW IB Rate	2.84%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yrPW IB Rate	3.98%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yrPW IB Rate	4.11%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
<b>Bank Rate</b>														
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
<b>5yrPW IB Rate</b>														
Sector's View	1.84%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.84%	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.84%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
<b>10yrPW IB Rate</b>														
Sector's View	2.84%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.84%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.84%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
<b>25yrPW IB Rate</b>														
Sector's View	3.98%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	3.98%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	3.98%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
<b>50yrPW IB Rate</b>														
Sector's View	4.11%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.11%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.11%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

### Annex 2 – Economic Background

#### **Global economy**

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

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

#### **The US economy**

The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y and 2.8% in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its \$85bn per month asset purchases programme of quantitative easing. However, it is expected that this level of support will start to be tapered down early in 2014. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

### China.

Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

### Japan.

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

### **UK economy**

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

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

So very encouraging - yes, but, still a long way to go! However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth

**Forward guidance.** The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate currently stands at 2.5 million i.e. 7.6 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

**Credit conditions.** While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), FLS is also due to be bolstered by the second phase of Help to Buy aimed at supporting the purchase of second hand properties, which is now due to start in earnest in January 2014. While there have been concerns that these schemes are creating a bubble in the housing market, the house price increases outside of London and the south-east have been minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

**Inflation.** Inflation has fallen from a peak of 3.1% in June 2013 to 2.2% in October. It is expected to fall back to reach the 2% target level within the MPC's two year time horizon.

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

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

There could well be volatility in gilt yields over the next year as financial markets await the long expected start of tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, at the time of writing, the political deadlock and infighting between Democrats and Republicans over the budget, and the raising of the debt limit, has only been kicked down the road, rather than resolved. Resolving these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

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

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

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the US Federal Budget and raising of the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.

## Appendix E

- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

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

### Annex 3

#### **Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management**

CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 June 2004 and will apply its principles to all investment activity. In accordance with the Code, the Head of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy Guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. The Council's Treasury Management Officer is restricted to placing Specified Investment funds with:

**Table A – Specified Investments**

	<b>Specified Investments Category</b>	<b>Limit</b>
a	<p><b>A body of high credit quality</b>, this category includes the following –</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Any bank or building society using Sector Creditworthiness service, following the suggested duration on the list up to a maximum of 364 days.</li> <li><input type="checkbox"/> Nationalised and Part nationalised banks can be included within specified investments as long as they remain part-nationalised</li> </ul>	<p><b>£10m per institution</b> or a maximum of <b>30% of total investment</b> (whichever is the greatest), <b>£10m per corporate group</b></p>
b	<p><b>The UK Government</b> (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity)</p>	no amount limit
c	<p><b>UK local authorities</b></p>	<p><b>£5m per LA, £10m all LAs</b></p>
d	<p><b>Pooled investment vehicles</b> (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This category covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor’s, Moody’s or Fitch rating agencies.</p> <p>CLG Investment Guidance specifies that Money Market Funds with high credit ratings are classified as Specified Investment. These funds are instant access investment. There is possibility that part of the investment may be exposed to counterparties the Council would not approve normally or invest directly. The counterparty risk is mitigated by that –</p> <ul style="list-style-type: none"> <li>• The Fund Managers diversify investment in a range of counterparties;</li> <li>• The Funds are instant access;</li> <li>• The Council only invests in funds rated AAA;</li> <li>• DCLG Investment Guidance classifying such funds as Specified Investment.</li> </ul>	<p><b>£5m per fund,</b></p>
e	<p><b>Enhanced Money Market Funds</b></p> <p>These are similar to normal money market funds but operate on a variable rate basis. The selection criteria will be on the same basis as the pooled investment vehicles with only funds rated AAA by Standard and Poor’s, Moody’s or Fitch rating agencies being used.</p> <p>In addition to this only EMMF’s with a credit score of 1.25 and above will be used.</p>	<p><b>£5m per fund,</b></p>
f	<p><b>Corporate Bond Funds</b></p>	<p><b>£5m per fund</b></p>

**Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Amounts invested with any one institution shall not exceed £2m for periods of more than 2 years. Amounts invested with any one corporate group shall not exceed £5m (with the exception of Councils own bank).

Amounts invested in non specified fixed term investment would normally not exceed 25% of the total Invested. The Head of Finance has the discretion if required to exceed the limit which may occur during the course of the year should rate of return on investment be beneficial to the council. Any decision will be based on taking into account current and future market conditions as well counterparty strength and rating. If these circumstances are required this will be reported back to the appropriate committee.

**Table B – Non Specified Investments**

<b>Non Specified Investment Category</b>	<b>Limit</b>
<b>a. Any institutions meeting the criteria set out for Specified Investments</b> , with a maturity of greater than one year following the suggested duration on the list up to a maximum of 2 years.  (including forward deals in excess of one year from inception to repayment).	<b>£4m</b> maximum of <b>2-years</b> per institution
<b>b. Councils Bank</b> – Should its ratings fall below that required for specified investment, monies will be restricted to instant access.	<b>£7m</b>
<b>c. Top 10 building societies, by asset value.</b>	<b>£2m</b> maximum of <b>2-years</b> per institution.  <b>£6m for all B/S sector</b>
<b>d. Property funds</b>	<b>£5m</b> per fund

**Local Authority Mortgage Scheme.** Under this scheme the Council will place a maximum fund of £5m, with one of the approved lenders participating in the LAMS scheme for a fixed period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories

**Use of External Fund Managers** –The Council currently uses external fund managers for part of its investment portfolio. The Council is not restricted to placing funds with cash managers, and will manage funds in house, use fund managers, or brokers if it is appropriate to do so.

The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council’s investment strategy.

Currently the Council has an agreement with Tradition UK and Sterling International. The fund managers are required to adhere to the following:

- All investments restricted to sterling denominated instruments;
- Amounts invested with any one institution or Corporate Group should not exceed the limits specified in Table A and Table B.
- Portfolio management is measured against the return provided by the 3 month sterling LIBID, or in accordance with the measures specified in the contract.

The performance of investment managed by Fund Managers is reviewed at least quarterly by the Head of Finance.

**Ethical Investment Statement** - The council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the council

“The Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply council deposits in a socially responsible manner.”

Counterparties shall be advised of the above statement.

**Annex 4**

**Risk Management** – The Council undertakes risk assessment for all fixed term deposits or greater than one month. The risk assessment uses the following template –

**Risk assessment of new investment (last updated March 2011)**

<b>Investment</b>	<b>Institution</b>	<b>Risk Assessment</b>		
Investment Product	Institution name	<i>Risk of the counterparty defaulting on investment</i>		
			<i>Likelihood</i>	
		Counterparty on our specified list: Instant access	1.4	
		Counterparty only on non specified list: Instant access	1.7	
Principal Value	Eligibility	Counterparty on our specified list: <=364 days	2	Unlikely
		Counterparty on our specified list: <=3 months	1	Unlikely
		Counterparty only on non specified list: <=364 days	2.4	
		Counterparty only on non specified list: >364 days	3	Likely
Term	Limit with this institution			
		<i>Impact of losing the investment</i>		<i>Impact</i>
Rate	Existing investment value	Total principal less than £700,000	1	Negligible
		Total principal between £700,000 and £1.4m	2	Minor
		Total principal between 1.4m and £3.5m	3	Major
Rate %	Value inc new investment	Total principal greater than £3.5m	4	Critical
		<b>Risk Score :</b>		
Internal Reference	Is it within the limit?			

Risk assessed by:

Risk assessment date:

# REPORT TO CABINET

REPORT OF: STRATEGIC DIRECTOR – CORPORATE FOCUS  
 STRATEGIC DIRECTOR – COMMUNITY & ENVIRONMENT

REPORT NO.: HOF 264

DATE: 3rd February 2014

<b>TITLE:</b>	<b>Determination of Housing Revenue Account Budget 2014/15 and indicative revenue budgets to 2016/17.</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Policy Framework Proposal	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Cllr Teri Bryant- Housing Portfolio Holder Cllr Mike Taylor Resources and Assets Portfolio Holder	
<b>CONTACT OFFICER:</b>	Daren Turner – Strategic Director Corporate Focus Tel: 01476 406301 Email: <a href="mailto:d.turner@southkesteven.gov.uk">d.turner@southkesteven.gov.uk</a> Tracey Blackwell – Strategic Director – Community & Environment Tel 01476 406058 Richard Wyles – Head of Finance Tel: 01476 406210 Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ASSESSMENT:</b>	Stage 1 Equality impact analysis and undertaken	Full impact assessment Required: N/A
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Local Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	HOF262 – Budget Requirement 2014/15  The above reports can be located by putting their reference number in the search section of the committee website via the link below: <a href="http://moderngov.southkesteven.gov.uk/ieDocSearch.aspx?bcr=1">http://moderngov.southkesteven.gov.uk/ieDocSearch.aspx?bcr=1</a>	

## 1. RECOMMENDATIONS

### In relation to the Housing Revenue Account (HRA)

Make recommendations a to d. to Council:

- a. to approve dwelling rent increases in accordance with Government guideline rent providing an average rent of £78.13 (an average rental increase of 5.13%)
- b. to approve an increase in garage rents of 3.2%
- c. to approve an increase in service charges by 3.2%
- d. to approve the Housing Revenue Account for the year 2014/15 (including the items at Appendix A in the report) and indicative years 2015/16 and 2016/17 shown at Appendix B

### In relation to the Investment Programmes

Make recommendations e. to f. to Council:

- e. approve the Housing Investment programme for 2014/15 to 2018/19 as shown at Appendix C
- f. approve the Capital Financing statement detailed at Appendix C

### In relation to the Reserves and balances

Make recommendation g to Council:

- g. To approve the movements in HRA revenue and Capital reserves and balances detailed in Appendix D.

## 2. PURPOSE OF THE REPORT/DECISION REQUIRED

- 2.1 The purpose of this report is to present to Cabinet the budget estimates for 2014/15, revenue and capital in respect of the Housing Revenue Account (HRA).

## 3. Background

- 3.1 The introduction of self-financing has presented the opportunity to review our approach to delivering housing services, enhance our investment in existing stock (where appropriate) and increase the amount of affordable housing stock within the district. In response to the introduction of self-financing and the changes introduced by the Localism Act, the Council has embarked on a programme of housing related projects. This has resulted in the adoption of a new medium term Housing Strategy, an updated Tenancy and Allocations policy and a comprehensive review of the HRA Asset Management Strategy. This work has provided the strategic and policy framework which will ensure that services continue to improve whilst at the same time making the best use of the housing assets.

- 3.2 At the meeting on 13th January 2014 Cabinet received a report in respect of the budget proposals for the HRA. Those draft budget proposals enable key areas of activity to be carried out including:
- Letting homes , managing and supporting tenancies
  - Engaging and involving tenants in service delivery
  - Ensuring that properties meet the decent homes standard (currently at 97%)
  - Providing a timely and effective responsive repairs service;
  - Continuing to improve the energy efficiency of the stock and attracting external funding;
  - Ongoing investment in improving access to sheltered schemes and communal areas of accommodation
  - Acquisition and/or development of additional homes within the HRA
- 3.3 A review of the HRA Business Plan is underway which will set out investment plans for the medium term. Self-financing of the HRA has provided greater flexibility and certainty in planning investment and will enable delivery of projects, particularly the procurement of new affordable housing, in support of corporate priorities.
- 3.4 The Housing Asset Management Strategy 2013-2018 defines a number of key actions that will further improve service and operational delivery. The key objective is to improve the quality and condition of stock beyond the Decent Homes Standard to a South Kesteven Standard.
- 3.5 The Strategy details our commitment to:
- Carry out regular appraisals of the housing stock to ensure that it remains sustainable and meets local housing needs
  - Focus on improving the energy efficiency of non-traditional stock and so reducing the impact of fuel poverty
  - Further improve our repairs and maintenance systems together with our approach to procurement to deliver cost effective and responsive services
  - Identify and develop opportunities to better utilise land and property assets to maximise the availability of affordable housing

#### **4 Housing Revenue Account 2014/2015 – Rent Proposals**

- 4.1 The main element of policy relating to the HRA for 2014/15 is the setting of rents. The Council's current policy is to keep in line with the Government's guidance on rent restructuring.
- 4.2 Existing policy is to meet rent convergence (the process whereby the rental levels are in line with similar properties in the social sector). The formula used is applying RPI inflation at the previous September (3.2%), plus 0.5% "real growth" + £2 per dwelling. The number of properties expected to reach rent convergence by 2015/16 is approximately 5400 with the remainder of the stock reaching convergence by the following year. For those properties that will have reached rent convergence by 2015/16, Government then expects local authorities to increase rents by no more than CPI (at September of the previous year) + 1 percentage point in any year.
- 4.3 The actual rent is calculated on a property by property basis using these parameters. For 2014/15 this has produced an average increase for SKDC tenants of 5.13%. At the level of individual dwellings, the percentage increase will depend

upon each property's proximity to its target, with increases varying between 4.13% and 5.57%. In cash terms, the average rent will be £78.13 with a minimum of £52.24 and a maximum of £112.77. Garage rents and service charges are increased in line with September RPI figure of 3.2%.

- 4.4 Consultation has been undertaken with tenants via the Neighbourhood, Community & Tenancy Service Review Group on 20th January 2014 with respect to the proposed increases and no specific concerns were raised. All tenants will be contacted and details of their specific rent increase will be provided.
- 4.5 Changes by central government to the level of housing benefit being paid to social housing tenants has had an impact on 880 (35.1%) of the 2,507 of the Council's working age tenants and who are considered by the regulations to be under-occupying their existing properties. During the course of 2013/14 information has been provided generally to all tenants through 'Skyline' and those households most likely to be affected have been more directly targeted, having received letters indicating the extent of the financial impact on their household and the offer of advice and assistance. Advice and support continues to be provided to existing tenants who require more information or assistance with managing the impact of a reduction in housing benefit received, including, where appropriate, the options available for moving to accommodation with fewer bedrooms.

## **5 Housing Investment Programme (HIP) 2014/15 - 2018/19**

- 5.1 The HIP programme is forecast to outturn at £5.794M for 2013/14. The proposed 5 year programme currently focuses on delivery of the decent homes programme together with a range of additional estates management projects. Funding the HIP programme will be met from the major repairs reserve and contributions from revenue.
- 5.2 The introduction of self-financing presented the opportunity to consider a range of approaches to increasing the amount of affordable housing stock within the district. One of the key priority areas within the Housing Strategy is the desire to encourage the provision of more affordable housing which better meets the needs of our population. During 2012 the Council signed an agreement to retain a proportion of the receipts from "Right To Buy" (RTB) properties to re-invest in the provision of affordable housing within the district. To date 31 applications for RTB sales have been completed during 2013/14 in comparison with a total of 20 during 2012/13. Of these additional sales it is proposed to use £585K of the capital receipts reserve to fund the new build capital programme.
- 5.3 The development of additional affordable housing within the HRA is likely to include a range of potential approaches, some suitable for the short term and others forming part of a medium to long term approach. Options include:
- Consideration of small scale in-fill and garages sites
  - Larger scale developments in partnership with developers, Registered Social Landlords and/or community trusts
  - Remodelling of existing stock
  - Purchase of new build or RTB buy back opportunities
  - Acquisition of land or alternatively building on existing sites

- 5.4 The self financing arrangements have given the Council the opportunity to deliver the above by allocating £1M in 2013/14 and an estimated further £2M in 2014/15 to fund new build housing schemes. Existing Council sites have been assessed for suitability and those that present opportunities for new build development that could be achieved have been brought forward. Capital investment has been made at line 5 of the programme as shown at Appendix C.
- 5.5 The new build development delivers five schemes (providing 33 units in total) as summarised in the table below:

<b>SITE</b>	<b>NO. OF UNITS</b>	<b>NO. OF BEDS</b>
East Avenue Grantham	3	2
Sandon Road, Grantham	4	2
Thames Road, Grantham	2	1
Glen Crescent, Stamford	4	2
Lincoln Road, Stamford	8	1
	8	2
	2	3
	2	4

## **6 Proposed method of financing the Capital Programme**

- 6.1 In respect of the HRA capital programme, the financing of the programme will be met from the Major Repairs Reserve (MRR), revenue contributions of £2M in 2014/15 and £1M per annum for 2015/16 and 2016/17 and an allocation of £585K in 2014/15 from the capital receipts reserve.
- 6.2 A total of £4.9m has been allocated to be spent on a large scale upgrade programme over 2 years which will result in 700 homes in urban and rural areas being insulated. In total 300 properties will have external wall insulation installed by March 2014. £1.4m is being funded through the HRA capital programme split equally in 2013/4 and 2014/15 with the balance of the funding being externally grant aided.

## **7 Reserves and Balances**

- 7.1 The HRA has 4 specific reserves; namely the working balance, the Major Repairs Reserve, the service improvement reserve and the loan repayment reserve. The working balance is intended to provide financial support to the HRA should any significant unforeseen costs arise during the financial year. The Major Repairs Reserve is the primary source of funding for the HRA capital programme and is proposed to be utilised to fund the investment in the housing stock over the next 5 years.
- 7.2 The service improvement reserve has been utilised to pump prime the employment of four apprentices in Property Services Repairs, which supports the Council's priority of Growing the Economy and growing skills. The loan repayment reserve is receiving annual surplus allocations in order to meet the maturity payment of £25M in 2019/20. However before this payment is made, the HRA has other financing options it can consider such as re-financing the loan in order to utilise the surpluses for other priorities in accordance with the Housing Strategy. Therefore this will be kept under review and members will have the opportunity to consider the financing options available to them before the payment maturity period.

## **8 Statement by Chief Finance Officer (S151 officer)**

8.1 The 2014/15 HRA Budgets and indicative budgets for 2015/16 to 2016/17 have been drawn up to take account of the relevant Council's strategies, policies and the financial context, in particular:

- The Corporate Plan
- The Housing Business Plan
- Service Strategies and Plans
- HRA Asset management Strategy
- The economic context and recent grant announcements
- The 2013/14 HRA forecast outturn

## **9 Comments of Financial Services**

In recommending the budget to the Council, the Cabinet must take account of the advice of the Chief Finance Officer in respect of the above. For 2014/15 it can be confirmed that the budget presented to the Cabinet is robust in its formulation and the level of reserves is adequate for the HRA.

## **10 Risks to the budget proposals**

In formulating the budget proposals the following has been taken into account.

**Rental income** – with the introduction of a number of welfare reform changes (specifically spare bedroom subsidy) and the Local Tax support scheme there is extra emphasis on the collection of rent from tenants to ensure the current rental collection performance is achieved. This is particularly relevant in the context of the Housing Business Plan financial model in order to ensure the ambitious plans of the Cabinet are financially affordable.

## **11 Comments of Legal and Democratic Services**

The budget forms part of the Council's Budgetary Framework. Members should have regard to the comments of the Council's Chief Financial Officer which are set out in section 8 above when making their recommendations to Council in accordance with the Local Government Act 2003. Any budget must be set in accordance with the Budget and Policy Framework Procedure Rules as set out at part 4 of the Constitution.

## **12 Appendices:**

Appendix A – Summary of savings and additional Items

Appendix B - Revenue Estimate 2014/15 and indicative budgets 2015/16 and 2016/17

Appendix C – Capital Estimates 2014/15 to 2018/19

Appendix D – Reserves Statement

**APPENDIX A**

	<b>2014/15 £</b>	<b>2015/16 £</b>	<b>2016/17 £</b>
<b>SUMMARY OF SAVINGS</b>			
Invest to save payback - savings achieved from Invest to Save			
1 initiatives	43,000	43,000	43,000
2 Utilities - contract review	17,000	17,000	17,000
3 Grounds maintenance - contract review	70,000	70,000	70,000
<b>4 Total Savings</b>	<b>130,000</b>	<b>130,000</b>	<b>130,000</b>
<b>ADDITIONAL ITEMS</b>			
5 Flood prevention works	20,000	0	0
6 Periodic electrical testing	25,000	25,000	25,000
7 Works management and Mobile Working package upgrade	14,000	0	0
<b>8 Total additional items</b>	<b>59,000</b>	<b>25,000</b>	<b>25,000</b>

	2013/14	2014/15	2015/16	2016/17
Detail	Original Base	Estimate Base	Indicative Base	Indicative Base
	£'000	£'000	£'000	£'001
<b>INCOME</b>				
1 Dwelling Rents	(23,832)	(24,781)	(25,949)	(26,849)
2 Non Dwelling Rents	(280)	(289)	(297)	(306)
3 Charges for Services and Facilities	(1,344)	(531)	(545)	(558)
4 Other Income	(60)	(62)	(63)	(64)
<b>5 TOTAL INCOME</b>	<b>(25,516)</b>	<b>(25,662)</b>	<b>(26,854)</b>	<b>(27,777)</b>
<b>EXPENDITURE</b>				
6 Repair and Maintenance	7,781	7,923	7,856	7,890
7 Supervision and Management - General	2,536	2,521	2,533	2,553
8 Supervision and Management - Special	1,993	1,221	1,239	1,259
9 HRA share of Corporate and Democratic Costs	296	350	350	350
10 Depreciation and Impairment of Fixed Assets	5,200	5,923	6,117	6,315
11 Debt Management Expenses	24	25	25	26
12 Provision for bad debts	150	160	525	543
13 Repayment of Principal	3,222	3,222	3,222	3,222
<b>14 TOTAL EXPENDITURE</b>	<b>21,202</b>	<b>21,345</b>	<b>21,867</b>	<b>22,158</b>
<b>15 NET COST OF HRA SERVICES</b>	<b>(4,314)</b>	<b>(4,317)</b>	<b>(4,987)</b>	<b>(5,619)</b>
16 Interest Payable and Similar Charges	3,460	3,342	3,217	3,117
17 Interest and Investment Income	(290)	(200)	(300)	(450)
<b>18 DEFICIT (SURPLUS) FOR THE YEAR ON THE HRA</b>	<b>(1,144)</b>	<b>(1,175)</b>	<b>(2,070)</b>	<b>(2,952)</b>
<b>MOVEMENT ON THE HRA BALANCE</b>				
19 (Deficit)/Surplus for the Year	1,144	1,175	2,070	2,952
20 Contribution to Loan Repayment Reserve	(1,144)	(1,175)	(2,070)	(2,952)
21 Revenue Contributions to Capital	(1,000)	(2,000)	(1,000)	(1,000)
<b>22 Housing Revenue Account balance at start of year</b>	<b>10,239</b>	<b>9,239</b>	<b>7,239</b>	<b>6,239</b>
<b>23 Housing Revenue Account balance at end of year</b>	<b>9,239</b>	<b>7,239</b>	<b>6,239</b>	<b>5,239</b>
<b>24 Major Repairs Reserve balance at start of year</b>	<b>5,109</b>	<b>4,337</b>	<b>5,987</b>	<b>9,801</b>
25 Depreciation	5,200	5,923	6,117	6,315
26 Capital Financing	(4,926)	(4,273)	(2,303)	(2,637)
<b>27 Major Repairs Reserve balance at end of year</b>	<b>5,383</b>	<b>5,987</b>	<b>9,801</b>	<b>13,479</b>

**SUMMARY FINANCING STATEMENT**

APPENDIX C

Description	2013/2014 Forecast Outturn £'000	2014/2015 Estimate Base £'000	2015/2016 Indicative Base £'000	2016/2017 Indicative Base £'000	2017/2018 Indicative Base £'000	2018/2019 Indicative Base £'000
<b><u>HOUSING REVENUE ACCOUNT</u></b>						
1 Stock Improvements	5,647	6,778	3,142	3,485	2,784	3,237
2 IT Software	89	60	-	-	-	-
3 Purchase of Vehicles	58	20	161	152	144	125
<b>4 TOTAL - HOUSING REVENUE ACCOUNT</b>	<b>5,794</b>	<b>6,858</b>	<b>3,303</b>	<b>3,637</b>	<b>2,928</b>	<b>3,362</b>
<b><u>HRA FINANCED BY:</u></b>						
5 Major Repair Reserve	4,794	4,273	2,303	2,637	2,928	3,362
6 HRA Useable Capital Receipts	-	585	-	-	-	-
7 Contribution from Revenue	1,000	2,000	1,000	1,000	-	-
<b>8 TOTAL - HRA CAPITAL PROGRAMME</b>	<b>5,794</b>	<b>6,858</b>	<b>3,303</b>	<b>3,637</b>	<b>2,928</b>	<b>3,362</b>

## APPENDIX C

Description	2013/2014 Forecast Outturn £'000	2014/2015 Estimate Base £'000	2015/2016 Indicative Base £'000	2016/2017 Indicative Base £'000	2017/2018 Indicative Base £'000	2018/2019 Indicative Base £'000
<b>HOUSING REVENUE ACCOUNT</b>						
<b>Repairs and Improvements</b>						
1 Purchase of land for creation of road	-	20	-	-	-	-
2 Purchase of land	211	-	-	-	-	-
3 Purchase of strategic land acquisitions	-	300	-	-	-	-
	211	320	-	-	-	-
<b>Energy Efficiency Initiatives:</b>						
4 Central Heating, Ventilation and boiler replacements	1,350	1,000	1,000	1,000	1,000	1,000
<b>Refurbishment and Improvement:</b>						
5 New Build Properties	700	2,300	-	-	-	-
6 Windows	75	-	-	141	34	88
7 Property Refurbishments	150	-	-	-	-	-
8 Re-roofing (includes chimneys)	1,040	1,050	1,065	1,054	1,057	1,059
9 Re-wiring	175	175	110	175	175	-
10 Kitchen & Bathroom Refurbishments	1,000	1,000	850	1,000	438	1,000
11 Replacement of Canopies	180	-	-	-	-	-
12 Replacement door programme	41	23	37	35	-	10
13 Passenger lifts: Riverside Grantham	15	-	-	-	-	-
14 Passenger lifts: Church View Great Gonerby	10	-	-	-	-	-
15 External Wall Insulation	700	830	-	-	-	-
16 Installation of Air Source Heat Pumps	-	80	80	80	80	80
	5,436	6,458	3,142	3,485	2,784	3,237
<b>IT Software</b>						
17 Upgrade Opti-time software	15	10	-	-	-	-
18 Vehicle management system for repairs	-	50	-	-	-	-
19 Mobilisation of craft working	74	-	-	-	-	-
	89	60	-	-	-	-
<b>Purchase of Vehicles</b>						
20 Repairs Vehicles	58	20	161	152	144	125
21 Tenancy and Care Services	-	-	-	-	-	-
	58	20	161	152	144	125
<b>22 TOTAL - HOUSING INVESTMENT PROGRAMME</b>	<b>5,794</b>	<b>6,858</b>	<b>3,303</b>	<b>3,637</b>	<b>2,928</b>	<b>3,362</b>

**APPENDIX D**  
**HRA RESERVES STATEMENT AS AT 31st MARCH 2017**

	<b>ADDENDUM</b>	<b>Balance as at 31 March 2013 £'000</b>	<b>Movement on Reserve in year £'000</b>	<b>Balance as at 31 March 2014 £'000</b>	<b>Movement on Reserve in year £'000</b>	<b>Balance as at 31 March 2015 £'000</b>	<b>Movement on Reserve in year £'000</b>	<b>Balance as at 31 March 2016 £'000</b>	<b>Movement on Reserve in year £'000</b>	<b>Balance as at 31 March 2017 £'000</b>
	<b>Housing Revenue Account (HRA)</b>									
	<b>Revenue Reserves</b>									
1	Insurance Reserve	293	0	293	0	293	0	293	0	293
2	Service Specific Funds	349	(349)	0	0	0	0	0	0	0
3	HRA Improvement Reserve	500	(55)	445	(40)	405	0	405	0	405
4	Working Balance	10,239	(1,000)	9,239	(2,000)	7,239	(1,000)	6,239	(1,000)	5,239
5	<b>Total HRA Revenue Reserves</b>	<b>11,381</b>	<b>(1,404)</b>	<b>9,977</b>	<b>(2,040)</b>	<b>7,937</b>	<b>(1,000)</b>	<b>6,937</b>	<b>(1,000)</b>	<b>5,937</b>
	<b>HRA Capital Reserve</b>									
6	HRA Capital Receipts Reserve	591	1,089	1,680	(204)	1,476	381	1,857	381	2,238
7	Loan Repayment Reserve	1,685	1,144	2,829	1,175	4,004	2,070	6,073	2,952	9,026
8	Major Repairs Reserve	3,396	941	4,337	1,650	5,987	3,814	9,801	3,678	13,479
9	<b>Total HRA Capital Reserves</b>	<b>5,672</b>	<b>3,174</b>	<b>8,846</b>	<b>2,621</b>	<b>11,467</b>	<b>6,265</b>	<b>17,732</b>	<b>7,011</b>	<b>24,743</b>
10	<b>Total HRA Reserves</b>	<b>17,053</b>	<b>1,770</b>	<b>18,823</b>	<b>581</b>	<b>19,404</b>	<b>5,265</b>	<b>24,669</b>	<b>6,011</b>	<b>30,680</b>

## REPORT TO CABINET

**REPORT OF:** Neil Cucksey, Property Development Manager.

**REPORT NO:** PD015

**DATE:** 03 February 2014

<b>TITLE:</b>	Redevelopment of St Peter's Hill Grantham	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Key Decision	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Frances Cartwright Grow the Economy and Economic Development	
<b>CONTACT OFFICER:</b>	Neil Cucksey n.cucksey@southkesteven.gov.uk 01476 406224	
<b>INITIAL IMPACT ASSESSMENT:</b>	Carried out and Referred to in paragraph (7) below Not applicable	Full impact assessment Required:
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	Non key report ref PD014 Proposals for Initial Works for Cinema development at St. Catherine's Road, Grantham. (link)	

### 1. RECOMMENDATIONS

- 1.1 That Cabinet approves in principal the redevelopment of land and premises off St Catherine's Road and St Peter's Hill, Grantham as set out in the report subject to securing suitable detailed Planning Permission, terms of agreement with interested parties and funding.

**1.2 Cabinet recommends to Council the allocation of up to £6.1m in the capital programme over a 3 year period for delivery of the scheme of redevelopment. The composition of the scheme will be dependent upon the validity of the detailed business case and contract build cost for the scheme, which will be subject to a Key decision by Cabinet.**

**1.3 Delegate authority to the Strategic Director- Corporate Focus in consultation with Portfolio holder for Grow the Economy and Economic Development and Strategic Resources - Well Run Council to incur expenditure on professional fees, application fees, etc to conclude the detailed business case up to a maximum of £75k and negotiate and enter into the following transactions and agreements at the appropriate time and where necessary subject to the grant of planning permission for development and the necessary budget provision being agreed by Council:\***

- **Heads of Terms with KRNS Properties Limited (KRNS) for Reel Cinema Limited.**
- **Apply for detailed Planning Permissions as necessary for delivery of the scheme.**
- **Agree procurement route for construction works**
- **Release of 3R's (now Reel Cinema Limited) existing ground lease. \***
- **Release of existing premises and Lease on new premises for Grantham Senior Citizens Club. \***
- **Development Agreement/Agreement for lease with (KRNS) for Reel Cinema. \***
- **Extinguish existing Car Parking orders (St Catherine's Road) and confirm rights.**
- **Contract for construction works \***
- **Lease of cinema building to KRNS.\***
- **Warrantees/ guarantees etc to ensure performance of the construction works. \***
- **Agreement for lettings on completed commercial units. \***

## **2. PURPOSE OF THE REPORT**

**2.1** The purpose of this report is to inform Members of a prospective development at St. Catherine's Road, Grantham and obtain approval for initial works and negotiations with interested parties to develop a scheme. The Council has been approached by the incumbent cinema provider (Reel Cinema Limited) at St. Catherine's Road, Grantham to enhance and develop the existing offer by adding 4 screens to the existing 2 screen cinema and refurbish the two existing screens and foyer to the same standard as the new building. Having considered the approach and land area required to deliver the scheme, the Council are

considering the wider opportunities for the creation of a leisure and cultural quarter for Grantham to further enhance the economic vitality of the town centre and to relocate the existing Grantham Senior Citizens Club (GSCC) within that site.

- 2.2 In order to fully consider the implications of such a scheme it is necessary to commission certain professional works in advance of further commitment to the development. A Non Key decision ref PD 014 has been taken to enable the design solution to be developed. The scope of the architects appointment will be to carry out services of Lead Consultant and Architect as Designers, as outlined in RIBA Standard Conditions of appointment for an Architect 2010 (2012 revision), Stages A-D inclusive.
- 2.3 This report sets out the component parts of the development envisaged together with the estimated cost for consideration of being allocated in the Capital Programme for the period 2014/15 – 2018/19.

### 3. DETAILS OF REPORT

- 3.1 Proposed Development. - Subject to Planning.

The proposed site- See Appendix 1 for site plan.

#### Site Area and ownership

Location	area	ownership
Ext Reel Cinema	0.31 acres	SKDC, Ground lease in place to Reel until 2018. (Partial surrender to be negotiated to facilitate relocation of Grantham Senior Citizens club).
Car Park	0.51 acres	SKDC, parking orders can be removed. Multi storey car park has sufficient capacity to accept displacement of 57 spaces.
Senior Citizens Club	0.19 acres	SKDC. On licence to GSCC.

**Total 1.01 acres**

### 3.2 Cinema

- 3.2.1 Reel Cinemas via their property company, KRNS, will surrender part of their existing ground lease to facilitate a new club house to be built for Grantham Senior Citizen's club (GSCC) to the rear of the existing cinema building. The existing club building has been in existence for approximately 40 years and is generally dilapidated and beyond its economic life. The relocation of GSCC into fit for purpose accommodation allows the club to continue and thrive whilst

enabling the cinema to be extended with 4 new screens to make a 6 screen multiplex cinema offer for Grantham.

- 3.2.2 KRNS will complete the internal fit out of the cinema inclusive of technical installations and furnishings' and full refurbishment of the existing screens and construct a new facade enclosing the existing building entirely at their cost.
- 3.2.3 The new cinema building would be owned by the council. KRNS will take a long lease on an unbroken term and pay rent to provide a return on the capital investment to be agreed in the Heads of Terms.
- 3.2.4 The new cinema building and GSCC club house are estimated to cost £2,290,000 with fees for professional services, application fees, site investigations and reports etc estimated at £240k.

### 3.3 A3 use class Units (Restaurants)

- 3.3.1 As part of the cinema complex there is an opportunity to provide up to 9200 sq ft of ground floor restaurant space to enhance the overall offer.
- 3.3.2 These A3 units will generate an opportunity along with the cinema to revitalise the night-time and weekend economy within the town centre of Grantham and create a new focal point for the town to act as an attractor and potentially increase dwell time of visitors to the town with improved public realm to aid connectivity to the town centre.
- 3.3.3 The cost of constructing the A3 units at the same time as the cinema extension is estimated to be £1,073,000m

### 3.4 Office space over A3 units

- 3.4.1 The height of the acoustic box enclosing the new Cinema screens provides an opportunity to use the massing of the building to create 21,000 sq ft of office accommodation on first and second floor levels over the A3 units.
- 3.4.2 This space could potentially be used as Business Innovation space (BIC) to provide an offer in the town centre to support business start up and development.
- 3.4.3 A detailed business case designed to test the feasibility of developing, on a commercial basis, a Business and Innovation Centre, with associated 'workhub' and related office space within the proposed development is being undertaken.
- 3.4.4 The estimated cost of constructing the BIC over the A3 units at the same time as the cinema is £2,500,000.

## 5. OTHER OPTIONS CONSIDERED

5.1 Comparison of alternative economic related investment options, supported by general capital funding, based on spending the equivalent of £6 million on each option.

5.2 Business Innovation Centre.

To create a standalone BIC as envisage for station approach on a privately owned site of approximately 24,000 sq ft, built to high environmental standards to attract external funding would cost in the region of £6m being £5.4m to build and circa £0.6m to acquire land.

Quantitative outputs (over 3 years): source, Station Approach ERDF business case.

- 93 new start up businesses
- 19 growing businesses
- 9 Spin out businesses
- 31 inward investors
- 170 New jobs created
- 56 Safeguarded jobs
- 24,000 sq ft floor space
- 1 acre of brown field land redeveloped
- 3,000 users of the centre
- 12 innovation events

5.3 Provide serviced employment land

To purchase and service land with the necessary infrastructure to support business development and growth, 25 acres of serviced land could be delivered (subject to availability).

Assume 50% built footprint- 12.5 acres or 5.05 ha= 50,586 sq m built (NIA)

10% office = 5058 m sq	= 420 jobs
Industrial = 45,528 m sq	= 1264 jobs

**Total jobs = 1684**

Having recently completed the purchase of 5.5 acre of land for such a purpose, following an extensive site finding exercise, officers believe the purchase of an additional 25 acres of employment land within the Grantham area is not considered achievable at this point in time.

#### 5.4 Proposed development

It is believed the proposed development could generate the following new jobs;

Cinema	12-20 jobs, some part time
Restaurant	50 jobs
B.I.C/ Office	162 jobs

**Total jobs = 224**

In addition every £1 spent on construction output generates a total of £2.84<sup>1</sup> in total economic activity creating opportunities for employment and for the local supply chain.

#### 6.0 Conclusion

- 6.1 In summary, the St Peter's Hill site presents an opportunity for a new leisure, entertainment and business quarter to be created in the town centre using land already in the ownership of the District Council. These proposals on a prime Town Centre site are considered appropriate use through pre application advice received from SKDC's planning department. The delivery is de-risked by being on a site owned entirely by the Council.
- 6.2 Whilst on completion of both cinema and A3 units a commercially acceptable investment would be created for the council, it is considered that this would not be something that the private sector would be prepared to deliver as the overall returns would not be what is expected from a modern commercial development. However there is likely to be significant social and economic benefits to be achieved by the delivery of the Project.
- 6.3 Therefore because the initial financial return is anticipated to be below commercially acceptable values it is proposed that this scheme would be best delivered by the District Council, as land owner, by procuring the project with a building contractor as opposed to a commercial development partner, having secured an anchor end user in the cinema operator.

#### 7. RESOURCE IMPLICATIONS

The project will need to be resourced with appropriate professional skills the quantum of which has been priced into the costs.

#### 8. RISK AND MITIGATION

A detailed business case and risk assessment is required for the scheme on each of its component parts.

---

<sup>1</sup> Source LEK Consulting 2010 Construction in the economy

**9. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

None arising from this report

**10. CRIME AND DISORDER IMPLICATIONS**

None arising from this report

**11. COMMENTS OF FINANCIAL SERVICES**

The proposed capital programme for the period 2014/15 – 2018/19 includes an allocation of £6.1M under the heading of 'Grow the Economy' priority heading. If approved, then the allocation could be utilised to fund the redevelopment project as detailed in the report. The financing of the allocation will be met from the useable capital receipts reserve and specific set-a-side reserves.

**12. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

The District Council own the freehold of the site proposed for the scheme of development. Any development will be carried out on behalf of the District Council and the property developed will be leased to the end users at a commercial rate in accordance with s.123 of the Local Government Act.1972 and the General Disposal Consent 2003.

Any works will be procured in accordance with the Council's Contract and Procurement Procedure Rules.

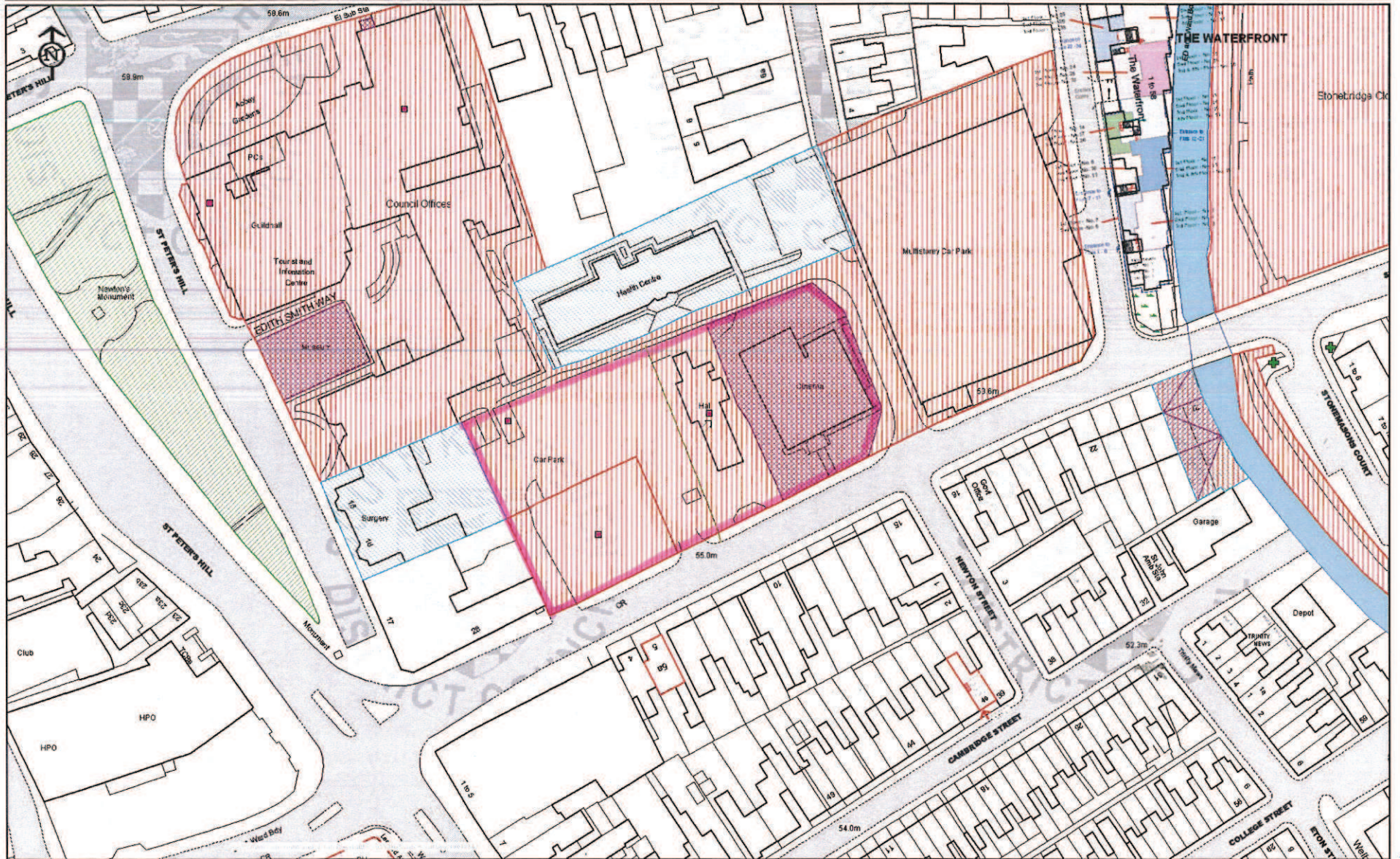
**13. COMMENTS OF OTHER RELEVANT SERVICES**

None received.

**14. APPENDICES:**

Appendix A -Site Plan

# Council Car Park, St Catherine's Road, Grantham, NG31 6TP



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 Ordnance Survey 10018662

Scale 1/1250

Date 2/9/2013

Centre = 491644 E 335623 N