

**Open**

## **Cabinet**

## **Agenda**

**6pm**  
**Tuesday, 18th February 2014**  
**Council Chamber**  
**Wyre Forest House**  
**Finepoint Way**  
**Kidderminster**



**Wyre Forest** District Council



## **Cabinet**

### **The Cabinet Members and their responsibilities:-**

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

### **Scrutiny of Decisions of the Cabinet**

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

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

*The deadline for "calling in" Cabinet decisions is 5pm on Friday 28<sup>th</sup> February 2014.*

Councillors wishing to "call in" a decision on this agenda should contact Sue Saunders, Committee and Electoral Services Officer, Wyre Forest House, Finepoint Way, Kidderminster. Telephone: 01562 732733 or email [susan.saunders@wyreforestdc.gov.uk](mailto:susan.saunders@wyreforestdc.gov.uk)

### **Urgent Key Decisions**

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

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

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

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

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

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

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

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

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

### **For further information**

If you have any queries about this Agenda or require any details of background papers, further documents or information you should contact Sue Saunders, Committee and Electoral Services Officer, Wyre Forest House, Finepoint Way, Kidderminster, DY11 7WF. Telephone: 01562 732733 or email [susan.saunders@wyreforestdc.gov.uk](mailto:susan.saunders@wyreforestdc.gov.uk)

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

### **WEBCASTING NOTICE**

This meeting is being filmed for live or subsequent broadcast via the Council's website site ([www.wyreforestdc.gov.uk](http://www.wyreforestdc.gov.uk)).

At the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed.

You should be aware that the Council is a Data Controller under the Data Protection Act 1998. The footage recorded will be available to view on the Council's website for 6 months and shall be retained in accordance with the Council's published policy.

**By entering the meeting room and using the public seating area, you are consenting to be filmed and to the possible use of those images and sound recordings for webcasting and or training purposes.**

If members of the public do not wish to have their image captured they should sit in the Stourport and Bewdley Room where they can still view the meeting.

If any attendee is under the age of 18 the written consent of his or her parent or guardian is required before access to the meeting room is permitted. Persons under 18 are welcome to view the meeting from the Stourport and Bewdley Room.

**If you have any queries regarding this, please speak with the Council's Legal Officer at the meeting.**

Wyre Forest District Council

Cabinet

Tuesday, 18th February 2014

Council Chamber, Wyre Forest House, Finepoint Way, Kidderminster

Part 1

Open to the press and public

Agenda item	Subject	Page Number
1.	<b>Apologies for Absence</b>	
2.	<b>Declarations of Interests by Members</b>  In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any Disclosable Pecuniary Interests (DPI's) and / or Other Disclosable Interests (ODI's) in the following agenda items and indicate the action that they will be taking when the item is considered.  Please see the Members' Code of Conduct as set out in Section 14 of the Council's Constitution for full details.	
3.	<b>Minutes</b>  To confirm as a correct record the Minutes of the meeting held on the 21 <sup>st</sup> January 2014.	7
4.	<b>CALL INS</b> a verbal update will be given on any decisions which have been "called in" since the last meeting of the Cabinet.	
5.	<b>Items Requiring Urgent Attention</b>  To consider any item which, in the opinion of the Chairman requires consideration at the meeting as a matter of urgency.	
6.	<b>Public Participation</b>  In accordance with the Council's Scheme for Public Speaking at Meetings of Full Council/Cabinet, to allow members of the public to present petitions, ask questions, or make statements, details of which have been received by 12 noon on Monday 10 <sup>th</sup> February 2014. (See front cover for contact details).	

<b>7.</b>	<b>Leader of the Council</b>	
<b>7.1</b>	<b>Leader's Announcements</b>	

<b>8. Securing the Economic Prosperity of the District/ Delivering Together, With Less/Improving Community Well-Being</b>		
	<b>Councillor N J Desmond</b>	
<b>8.1</b>	<b>Financial Strategy 2014-2019</b>  To consider a report from the Chief Financial Officer which provides an update on the Medium Term Financial Strategy and make recommendations to Council on the proposed budget decision and to also consider the recommendations from the Strategic Review Committee at its meeting on 10 <sup>th</sup> February 2014. In addition, to consider the report of the Chief Financial Officer in respect of the statutory duties in relation to budget setting and monitoring.  <i>(All reports are to follow)</i>	-
<b>8.2</b>	<b>Treasury Management Strategy 2014/15</b>  To consider a report from the Chief Financial Officer which recommends to Council the approval of the restated Prudential Indicators and Limits for the financial years 2014/15 to 2016/17, the updated Treasury Management and Investment Policy and Strategy Statements for the period 1 <sup>st</sup> April 2014 to 31 <sup>st</sup> March 2015, the Minimum Revenue Provision (MRP) Statement that sets out the Council's policy on MRP and the Authorised Limit Prudential Indicator. To also consider the recommendations from the Overview & Scrutiny Committee at its meeting on 6 <sup>th</sup> February 2014.  <i>The appendices to this report have been circulated electronically and a public inspection copy is available on request. (See front cover for details.)</i>	10
<b>8.3</b>	<b>Budget Monitoring Third Quarter 2013/14</b>  To consider a report from the Chief Financial Officer that outlines the monitoring of the Revenue Budget and Capital Programme in accordance with the Local Government Act 2003.  <i>The appendices to this report have been circulated electronically and a public inspection copy is available on request. (See front cover for details.)</i>	32
<b>9. Recommendations from Committees</b>		
<b>9.1</b>	<b>Overview &amp; Scrutiny Committee, 6<sup>th</sup> February 2014</b>  <ul style="list-style-type: none"> <li><b>Chaddesley Corbett Neighbourhood Plan – Regulation 14 Consultation Response</b></li> </ul>	45

10.	<b>To consider any other business, details of which have been communicated to the Solicitor to the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.</b>	
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11.	<b>Exclusion of the Press and Public</b>  To consider passing the following resolution:  “That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of “exempt information” as defined in paragraph 3 of Part 1 of Schedule 12A to the Act”.	
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## Part 2

Not open to the Press and Public

12.	<b>To consider any other business, details of which have been communicated to the Solicitor to the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.</b>	
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**WYRE FOREST DISTRICT COUNCIL  
CABINET**

**COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY, KIDDERMINSTER  
21ST JANUARY 2014 (6.00 PM)**

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**Present:**

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

**Observers:**

Councillors: H E Dyke, M Price and J A Shaw.

Before the meeting commenced the Leader of the Council asked for a period of silence in memory of the late Honorary Alderman Elizabeth Mills.

**CAB.47 Apologies for Absence**

There were no apologies for absence.

**CAB.48 Declarations of Interests by Members**

Councillor M J Hart declared an Other Disclosable Interest in agenda item no. 8.1 - Budget, Capital Programme and Council Tax Setting 2014-15 as he had rental properties that might fall within the Class C category of the Council Tax Discount Scheme but would remain in the meeting.

Councillor N J Desmond Declared an Other Disclosable Interest in agenda item no. 8.1 - Budget, Capital Programme and Council Tax Setting 2014-15 as he had rental properties that might fall within the Class C category of the Council Tax Discount Scheme but would remain in the meeting.

**CAB.49 Minutes**

**Decision: The minutes of the Cabinet meeting held on 19<sup>th</sup> November 2013 be confirmed as a correct record and signed by the Chairman.**

**CAB.50 Call Ins**

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

**CAB.51 Items Requiring Urgent Attention**

There were no items requiring urgent attention.

**CAB.52 Leader's Announcements**

There were no Leader's Announcements.

**CAB.53 Budget, Capital Programme and Council Tax Setting 2014-15**

A report was considered from the Chief Financial Officer which updated the strategy following the funding announcements together with updates for the position in relation to New Homes Bonus, the Council Tax Base, the Pensions Actuarial Revaluation and other areas where further information is now available.

Members were taken through the report and advised that the recommendations would be sent to the Strategic Review Committee for their consideration and there would be an opportunity at that meeting for alternative budgets from other parties to be discussed. A final decision on the budget process would be made at the Council meeting in February 2014.

Members were also advised that the Council were currently conducting a Council Tax consultation asking for feedback.

**Decision:**

**The following recommendations be endorsed and recommended to the Strategic Review Committee for consideration.**

- 1. The updates to the Medium Term Finance Strategy as considered by Council in November, as set out in paragraphs 4.4, 5.1, 6.1, 7.6 and 8.2 of the report to Cabinet.**
- 2. The level of net expenditure and resultant Council Tax for 2014/17 as set out in paragraph 10 of the report to Cabinet.**
- 3. The Base Capital Programme and Vehicle, Equipment and Systems Renewal Schedule as set out in Appendix 1, Appendices A and B of the report to be Cabinet.**
- 4. The variations to the Capital Programme and Vehicle, Equipment and Systems Renewal Schedule in accordance with the Council's Budget Process.**
- 5. The first £338,000 of the Right to Buy (RTB) receipts in 2014/15 be allocated to Disabled Facilities Grants (to a maximum Capital budget of £800,000) any subsequent RTB Capital Receipts be allocated to general capital reserves. The allocation of future years' RTB receipts, will be considered in future budget setting processes.**
- 6. The initial £1m funding allocated for the Local Authority Mortgage Scheme be removed from the Capital Programme given the launch of the Government's Help to Buy Scheme and withdrawal of the Lloyds Banking Group from this initiative.**

7. The discount for dwellings in Class C prescribed by the Council Tax (Prescribed Classes of Dwelling) (England) Regulations 2003 No 3011 shall, with effect from 1 April 2014, be one hundred per cent for the first 31 days only and zero per cent thereafter as set out in paragraph 9 of the report to Cabinet.

**CAB.54 Recommendations from Committees**

**Overview & Scrutiny Committee, 9<sup>th</sup> January 2014**

**Home Choice Plus Allocation Policy Review**

Members had concerns that a social landlord was to withdraw from the system the Council operated and felt it could make life difficult for residents in the future.

**Decision:**

- Approval be given to the Strategic Housing Services Team to consult on the proposed allocations policy changes.
- The Home Choice Plus questionnaire as attached at Appendix 2 of the report to the Overview and Scrutiny Committee, be approved as the appropriate means to undertake the consultation.
- The results of the consultation be brought back to a further meeting of the Overview and Scrutiny Committee prior to approval of the final policy.

The meeting closed at 6.19 pm.

**WYRE FOREST DISTRICT COUNCIL**

**CABINET**  
**18<sup>TH</sup> FEBRUARY 2014**

**Treasury Management Strategy 2014/15**

<b>OPEN</b>	
<b>SUSTAINABLE COMMUNITY STRATEGY THEME</b>	Stronger Communities
<b>CORPORATE PLAN PRIORITY:</b>	Delivering Together, With Less
<b>CABINET MEMBER:</b>	Councillor N J Desmond
<b>RESPONSIBLE OFFICER:</b>	Chief Financial Officer
<b>CONTACT OFFICERS:</b>	Tracey Southall - Ext. 2100 tracey.southall@wyreforestdc.gov.uk Lisa Hutchinson - Ext. 2120 lisa.hutchinson@wyreforestdc.gov.uk
<b>APPENDICES:</b>	<p>Appendix 1 - MRP Strategy  Appendix 2 - Interest Rate Forecasts  Appendix 3 - Prudential and Treasury Indicators  Appendix 4 - Economic Background  Appendix 5 - Specified and Non Specified Investments  Appendix 6 - Approved Countries for Investments  Appendix 7 - Treasury Management Scheme of Delegation  Appendix 8 - The Treasury Management Role of the Section 151 Officer  Appendix 9 – Sector Weekly Credit List (Counterparty List as at 10<sup>th</sup> January 2014)</p> <p><i>The appendices to this report have been circulated electronically and a public inspection copy is available on request. (See front cover for details.)</i></p>

**1. PURPOSE OF REPORT**

- 1.1 To provide Members with background information on the Chartered Institute of Public Finance (CIPFA) Prudential Code for Capital Finance in Local Authorities (Prudential Code).
- 1.2 To restate the Prudential Indicators and Limits for the financial years 2014/15 to 2016/17 and set out the expected treasury operations for this period.
- 1.3 To seek approval for the Council's Treasury Management Strategy Statement for the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015 that sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key

indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by Section 3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

- 1.4 To seek approval for the Council's Investment Policy and Strategy Statement for the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015 that sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.
- 1.5 To seek approval for the Council's Minimum Revenue Provision Policy Statement for the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015 that sets out the Council's criteria for repayment of Prudential Borrowing.
- 1.6 This proposed strategy has been considered and endorsed by the Treasury Management Review Panel on 28<sup>th</sup> January 2014, who made recommendations to the Overview and Scrutiny Committee held on 6<sup>th</sup> February 2014. Overview and Scrutiny have recommended to Cabinet that Council gives approval to this key strategy. This is in compliance with the CIPFA Treasury Management Code of Practice.
- 1.7 To fulfil four key legislative requirements:
  - The reporting of the Prudential Indicators as required by the CIPFA Prudential Code;
  - The Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code;
  - The Investment Policy and Strategy Statement (in accordance with Communities and Local Government (CLG) investment guidance);
  - The Minimum Revenue Provision (MRP) Policy Statement (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

## **2. RECOMMENDATIONS**

**In accordance with the recommendations from Overview & Scrutiny Committee that Cabinet recommends to Council to:**

- 2.1 Approve the restated Prudential Indicators and Limits for the financial years 2014/15 to 2016/17 included in Appendix 3.**
- 2.2 Approve the updated Treasury Management and Investment Policy and Strategy Statements for the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015 (the associated Prudential Indicators are included in Appendix 3 and the detailed criteria is included in Section 10 and Appendix 5).**
- 2.3 Approve the Minimum Revenue Provision (MRP) Statement that sets out the Council's policy on MRP included in Appendix 1.**
- 2.4 Approve the Authorised Limit Prudential Indicator included in Appendix 3.**

### 3. **BACKGROUND**

- 3.1 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.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure 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.

#### 3.3 **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."

#### 3.4 **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 the actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**3.5 Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Treasury Management Review Panel who makes recommendations to the Overview and Scrutiny Committee.

**3.6 Treasury Management Strategy for the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015**

The strategy for 2014/15 covers two main areas:

**1. Capital Issues**

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

**2. Treasury management Issues**

- the current treasury position;
- treasury indicators which will 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, the CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

**4. TREASURY LIMITS FOR THE PERIOD 1<sup>st</sup> APRIL 2014 to 31<sup>st</sup> MARCH 2015**

- 4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.
- 4.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is ‘acceptable’.
- 4.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion, incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years, details of the Authorised Limit can be found in Appendix 3 of this report.

## 5. CURRENT PORTFOLIO POSITION

5.1 The Council's treasury portfolio position at 10<sup>th</sup> January 2014 comprised:

Investments Held With	As at 10 <sup>th</sup> January 2014 £	Average Rate of Return	Duration
NatWest Bank	175,000	0.40%	Instant Access
Royal Bank of Scotland	2,270,000	0.70%	Instant Access
Lloyds TSB Bank	1,520,000	0.40%	Instant Access
NatWest Bank	1,000,000	0.60%	95 Day Notice – maturity due 03/02/14
Santander	3,000,000	0.40%	Instant Access
Svenska Handelsbanken	3,000,000	0.55%	Instant Access
Ignis Money Market Fund	3,695,000	Variable (0.39% on 10/01/14)	Instant Access
Lloyds TSB Bank	1,000,000	0.80%	Fixed to 11/04/14
Lloyds TSB Bank	1,000,000	0.80%	Fixed to 12/06/14
<b>Total £</b>	<b>16,660,000</b>		

5.2 Early in October 2008, the Icelandic banks Landsbanki, Kaupthing Singer & Friedlander and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. In Iceland, Winding-Up Boards were appointed to oversee the run-off of banks, including Landsbanki. This Council had £9m deposited across three of these institutions.

On 30<sup>th</sup> January 2014 the Council sold its legal claim to recover the investment it had deposited with the now insolvent estate of Landsbanki. It was sold to Deutsche Bank through an international competitive auction process. Lawyers Bevan Brittan acted on behalf of the Council along with the other local authorities and public bodies who were involved in the Icelandic bank collapse. The large majority of them also chose to sell their claim. The Council has recovered almost 97% of the £3 million that it had deposited with defunct Landsbanki Icelandic bank.

The decision to sell, followed expert legal, financial advice from external companies and the Council's accountancy team. The sale removes the uncertainty and risks about the timing and amount of future payments. No one could predict how long the bank will be in administration and what currencies future payments would be made in. If the Council had not sold its claim, there would have been costs associated with the on-going participation in the administration and the foreign exchange rate would also be a risk on the amount the Council received.

The table below details the latest position regarding the Council's remaining two Icelandic investments. An eleventh dividend of 2.5p in £, was paid by KSF on 18<sup>th</sup> December 2013, reducing the principal investment to £925,000. Fourteen dividends have been received to date from Heritable Bank reducing the principal investment to £60,157.

**Icelandic Investments – latest position**

Bank	Original Investment £	Interest Claimed £	Total Claim £	Dividends Received (including interest) £	Balance Outstanding including Interest Due £	Balance Outstanding Principal Only £
Kaupthing Singer & Friedlander	5,000,000	156,378	5,156,378	4,202,448	953,930	925,000
Heritable Bank	1,000,000	31,110	1,031,110	969,422	61,688	60,157
<b>Total £</b>	<b>6,000,000</b>	<b>187,488</b>	<b>6,187,488</b>	<b>5,171,870</b>	<b>1,015,618</b>	<b>985,157</b>

**6. BORROWING REQUIREMENT**

- 6.1 The Council's Capital Financing Requirement (CFR), its underlying borrowing requirement, is detailed below. Capital expenditure was approved by Council on 27<sup>th</sup> February 2013. A revision to the CFR was approved by Council on 27<sup>th</sup> November 2013 following some slippage in the approved Capital Programme.

	2012/13 Actual £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
<b>Capital Financing Requirement as at 31<sup>st</sup> March</b>	<b>5,505</b>	<b>6,384</b>	<b>14,866</b>	<b>20,341</b>	<b>19,980</b>

**7. PRUDENTIAL AND TREASURY INDICATORS FOR THE PERIOD 1<sup>st</sup> APRIL 2014 to 31<sup>st</sup> MARCH 2015**

- 7.1 Prudential and Treasury Indicators (as set out in Appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.
- 7.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This Council adopted the Code of Practice on Treasury Management on 27<sup>th</sup> February 2003 C90 (10), and as a result adopted a Treasury Management Policy Statement (Executive 13<sup>th</sup> February 2003 ED.223). The November 2011 revision of the Code was adopted by Council on 29<sup>th</sup> February 2012.
- 7.3 Within the Budget Report to Council in February 2014, revised Prudential Indicators 2014/15 to 2016/17 will be presented for approval, including the £5million investment fund capital scheme approved by Council in November 2013.

## 8. **BORROWING STRATEGY**

- 8.1 The Council is currently maintaining an externally 'under-borrowed' position. This means that the underlying capital borrowing need (Capital Financing Requirement – CFR) has not previously been funded with external loan debt but has been met using cash flow funds. This has been a prudent and cost effective approach in the current economic climate; however, it is no longer sustainable as the Council's cash balances are utilised. The Council undertook a first tranche of external borrowing in January 2013. Subsequent loans were taken with the Public Works Loans Board (PWLB) in March and April 2013 and with Derbyshire County Council in December 2013.

The Council's external borrowing position at 10<sup>th</sup> January 2014 comprised:

Lender	Date	Principal	Type	Interest Rate	Maturity
Borough Council of King's Lynn & West Norfolk	14/01/13	£2m	Fixed interest rate	0.75%	14/07/14 (1.5 years)
PWLB	15/03/13	£1m	Fixed interest rate	2.62%	15/03/22 (9 years)
PWLB	02/04/13	£1m	Fixed interest rate	1.52%	02/04/18 (5 years)
Derbyshire County Council	09/12/13	£1m	Fixed interest rate	0.65%	08/12/14 (364 days)

## 8.2 **Prospects for Interest Rates: View as provided by Capita Asset Services - Treasury Solutions**

The Council has appointed Capita Asset Services – Treasury Solutions (Capita) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and commentary gives Capita's central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

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

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. 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. This will be proactively mitigated by careful consideration of the day to day cash flow requirements balanced against the timing of borrowing need.

A more detailed Capita forecast is included in Appendix 2.

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

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

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

8.4 In view of the above forecast the Council's borrowing strategy will be to consider all suitable options and take advantage of the most attractive rates available, both from the PWLB and from the Market, including other Local Authorities, as and when required.

#### 8.5 **Policy On Borrowing In Advance Of Need**

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

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them

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.

**9. DEBT RESCHEDULING**

9.1 The Council commenced external borrowing in January 2013. A Policy in respect of debt rescheduling is therefore required.

9.2 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).

9.3 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 outlined in the above paragraphs, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

9.4 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.

9.5 Any rescheduling will be reported to the Cabinet at the earliest meeting following its action.

**10. ANNUAL INVESTMENT STRATEGY**

**10.1 Investment Policy**

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

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

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

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 ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

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

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

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

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

Investment instruments identified for use in the financial year are listed in Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

### **10.2 Creditworthiness Policy**

The Council continues to apply the creditworthiness service provided by Capita.

Capita advise that their 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.

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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 and are therefore referred to as durational bands. The Chief Financial Officer is satisfied that this service will continue to provide a high level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years \* (credit score 1)
- Dark pink 5 years for Enhanced money market funds (EMMFs) (credit score 1.25)
- Light pink 5 years for Enhanced money market funds (EMMFs) (credit score 1.5)
- Purple 2 years (credit score 2)
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks) (credit score 3)
- Orange 1 year (credit score 4)
- Red 6 months (credit score 5)
- Green 100 days\*\* (credit score 6)
- No colour not to be used (credit score 7+)

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

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The following table shows the standard limits using the Capita Creditworthiness Policy. However, details of the limits for Specified and Non-Specified Investments applicable to this Council can be found in Appendix 5.

	Colour (and long term rating where applicable)	% Limit	Time Limit
<b>Banks *</b>	<b>yellow</b>	<b>25%</b>	<b>5yrs</b>
<b>Banks</b>	<b>purple</b>	<b>25 %</b>	<b>2 yrs</b>
<b>Banks</b>	<b>orange</b>	<b>25 %</b>	<b>1 yr</b>
<b>Banks – part nationalised</b>	<b>blue</b>	<b>50% (subject to a maximum value of £5m, whichever is the lower)  Requires Chief Financial Officer approval if greater than 25%</b>	<b>1 yr</b>
<b>Banks</b>	<b>red</b>	<b>25 %</b>	<b>6 mths</b>
<b>Banks</b>	<b>green</b>	<b>25 %</b>	<b>100 days</b>
<b>Other institutions limit</b>	<b>green</b>	<b>25 %</b>	<b>100 days</b>
<b>DMADF</b>	<b>AA+</b>	<b>unlimited</b>	<b>6 months</b>
<b>Local authorities</b>	<b>n/a</b>	<b>25 %</b>	<b>5 yrs</b>
<b>Money market funds</b>	<b>AAA</b>	<b>25%</b>	<b>liquid</b>
<b>Enhanced money market funds with a credit score of 1.25</b>	<b>Dark pink / AAA</b>	<b>25 %</b>	<b>liquid</b>
<b>Enhanced money market funds with a credit score of 1.5</b>	<b>Light pink / AAA</b>	<b>25 %</b>	<b>liquid</b>

\* The yellow colour category is for UK Government debt or its equivalent, constant net asset value (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.

\*\* The green limit was formerly for 3 months but, in July 2013, the Financial Conduct Authority set a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.

The Capita credit worthiness 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. The financial institutions, on the resultant Counterparty list, are detailed in Appendix 9.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability 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.

All credit ratings will be monitored on a weekly basis as a minimum requirement. The Council is immediately alerted to changes to ratings of all three agencies through its use of the Capita 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 (CDS) against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government; Capita will supply this information to the Treasury team as part of their comprehensive service.

**The Local Authority Mortgage Scheme (LAMS)** – if the Council were to participate in the cash backed mortgage scheme it will require the Council to place a matching five year deposit to the life of the indemnity. This capital expenditure is an integral part of the LAMS policy initiative and would be outside the criteria specified above as it is not classified as an Investment for the purposes of the Treasury Management Strategy Statement.

### 10.3 Non UK Country Limits

The Council has determined that it will only use approved counterparties from countries outside the UK with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

In addition to the minimum sovereign credit rating, no more than 25% would be placed with any individual non-UK country at any time should they meet the creditworthiness criteria.

### 10.4 Investment Strategy

**In-house funds:** Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**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%

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

For its cash flow generated balances, the Council will seek to utilise its instant access/call accounts, business reserve accounts, 30 and 95 day accounts, money market funds, money market instruments (such as gilts and Treasury Bills) and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

#### **10.5 End of Year Investment Report**

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

#### **10.6 External Fund Managers**

The use of specialist investment managers be considered by the Chief Financial Officer on an ongoing basis, to manage a proportion of the Council's investments (minimum market requirement is usually £10 million) where market conditions are considered favourable to achieve higher overall investment returns. Specialist investment managers will be appointed by the Chief Financial Officer under delegated powers and subject to the Council's Standing Orders Relating to Contracts, if applicable. It is however highly unlikely the Council will hold sufficient funds for investment to be able to consider the use of External Fund Managers due to diminishing cash reserves and the increasing Capital Financing Requirement.

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The minimum credit criteria to be used by the cash fund manager(s) are as follows: -

	Fitch	Moody's	Standard and Poors
Long Term	A	A2	A
Short Term	F1	P-1	A-1
Viability/Financial Strength	BBB	C	N/A
Support	2	N/A	N/A

(The combination of Fitch ratings above is either B2 or C2)

## **11. POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS**

- 11.1 The Council uses Capita Asset Services – Treasury Solutions (Capita) as its external treasury management advisers, appointed from 1<sup>st</sup> September 2010. The contract for treasury services was recently extended by a further 2 years on favourable terms.
- 11.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and the Chief Financial Officer will ensure that statutory Section 151 responsibilities continue to be met, in close liaison with, but without undue reliance, upon our external service providers.
- 11.3 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.

## **12. SCHEME OF DELEGATION**

- 12.1 The Council's Treasury Management Scheme of Delegation is detailed in Appendix 7.

## **13. ROLE OF THE SECTION 151 OFFICER**

- 13.1 The Treasury Management Role of the Section 151 Officer is detailed in Appendix 8.

## **14. MEMBER AND OFFICER TRAINING**

- 14.1 The CIPFA Code requires the Responsible Officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. The Council has addressed this important issue by:
- Annual Portfolio holder training from the Chief Financial Officer and Treasury Consultants;
  - Treasury Management Review Panel annual training updates (with additional updates as necessary);
  - Quarterly Treasury Update Reports to Members;

- Daily Officer monitoring of Treasury and Money Market information by Treasury Officers;
- Regular attendance by Officers at professional Seminars provided by Treasury Consultants, CIPFA and CLG

**15. LOCAL ISSUES**

- 15.1 The most significant issue to affect the Council relates to the exposure of investments with links to Icelandic Banks. In reacting to this situation the Council established the Treasury Management Review Panel which examined the circumstances leading up to the placing of the particular investments and continues to make recommendations in relation to the Council's lending lists. On 30<sup>th</sup> January 2014 the Council sold its legal claim to recover the investment it had deposited with the now insolvent estate of Landsbanki and has recovered almost 97% of the £3 million that it had deposited. Repayments in respect of the remaining two investments continue in line with expectations. The Council remains optimistic of overall recovery rates. Further details can be found in Section 5.2 of this report.
- 15.2 During the next year the funds available for investment will reduce as the Council continues to progress its Transformation Agenda. Wyre Forest Forward initiatives are being pursued to ensure that the Council can reduce on-going revenue costs of delivering services. As other approved capital projects progress, the most significant being the Leisure Future Provision, the borrowing requirement will increase as detailed in this report.
- 15.3 Council on 27<sup>th</sup> November 2013 approved the creation of a major investment fund of £5m for the development of the Council's assets for housing and other suitable development opportunities. The fund is to initiate the proposal to further develop the portfolio of the Council's assets and invest in development opportunities to produce a positive revenue stream. The associated costs of borrowing will be met from any investment scheme.

The finance team will work closely with Capita on the business cases for any proposals to be funded under this initiative. Members will be given opportunity to scrutinise each business case as part of the process. The business cases will include demonstrations of affordability before the schemes can be committed.

- 15.4 Over the coming years the Council is also scheduled to make disposals of assets, however, careful consideration will be made at each opportunity to ensure that the Council sells at a time that maximises the return to the authority.
- 15.5 The Council entered into external borrowing in January 2013 in line with the Finance Strategy.

**16. KEY ISSUES**

16.1 The Key Issues of this report are summarised as follows:

- The Investment Policy and Strategy Statement 2012/13 was revised by Council. Approval was given to increase the counterparty/group limit to 50% with a maximum limit of £5m (whichever is the lower) for the UK part-nationalised banks, by exception only. Where an investment is above 25% this needs prior approval by the Chief Financial Officer. This has allowed the Council to secure effective rates of return whilst ensuring that the funds are placed with those counterparties that are considered to be a low risk, demonstrating security and liquidity over yield. This Policy has continued to date; the Chief Financial Officer has reviewed this Policy and concluded it should continue as part of the ongoing TMSS to avoid increased use of the Debt Management Office (DMO) and to manage investments effectively. It will be subject to regular review and remain to be used by exception only and with specific prior approval.
- The Council has entered into external borrowing in accordance with the current approved TMSS. Loans outstanding as at 10<sup>th</sup> January 2014 total £5million. Full details can be found in Section 8.1 of this report.
- It has not yet been possible to launch the Local Authority Mortgage Scheme (LAMS) approved at Council in February 2012. The scheme launch has been deferred due to the diminished differential between the broker/commercial rate Lloyds Bank are currently able to offer (caused by poor market conditions together with the impact of the national local lending scheme) and the costs of borrowing currently available. The reduced differential increases the Council's risk of exposure to any defaults. The Chief Financial Officer has now recommended to Council that the initial £1m funding allocated for the Local Authority Mortgage Scheme be removed from the Capital Programme given the launch of the Government's Help to Buy Scheme and withdrawal of the Lloyds Banking Group from this initiative.
- As announced in December 2013, following a competitive tendering process, Lloyds Bank plc has been awarded the Council's banking contract from 1<sup>st</sup> April 2014. This is excellent news and is well timed given the withdrawal of the Co Operative Bank from Local Authority banking contracts. Whilst the migration to Lloyds involves a considerable amount of work for the Accountancy Team, this will be appropriately resourced and we shall be working closely with both Lloyds and Coop to ensure a smooth transition.

16.2 As reported previously, the returns the Council is currently receiving from investment returns remain significantly lower than those achieved during years up to 2007/2008. Interest rates are estimated to remain historically low and are currently subject to a downward trend. Modest increases are anticipated to commence in Quarter 2 of 2016, implemented over a long period. Section 10 of this report identifies the on-going sensitivity that the Council faces in relation to investment returns.

- 16.3 The Chief Financial Officer will continue to keep the current Treasury Management Practices (TMP) under review with the assistance of the Council's Treasury Consultants and report to members as appropriate.
- 16.4 The financial situation facing this Council continues to be extremely challenging. The Provisional Local Government Settlement was announced following the Chancellor's Autumn Statement, on 18th December 2013. The Settlement was for 2014/15 only, with illustrative figures for 2015/16. The Final Settlement was announced on 5<sup>th</sup> February 2014 that was marginally different to the Provisional Settlement. As predicted, the austerity measures look set to continue until 2019, although the outlook for local government, particularly following the decisions announced as part of the Autumn Statement is less bleak than previously thought.

**17. FINANCIAL IMPLICATIONS**

- 17.1 The Financial Implications of the Treasury Management function are included in the Council's Medium Term Financial Strategy and Three Year Budget and Policy Framework.

**18. LEGAL AND POLICY IMPLICATIONS**

- 18.1 The Local Government Act 2003 supplemented by Regulations set out the current framework for a prudential system for local authority capital finance. This Act, together with CIPFA's Prudential Code for Capital Finance in Local Authorities, came into effect on 1<sup>st</sup> April 2004. This code together with recent revised editions, guides decisions on what Local Authorities can afford to borrow and has statutory backing under Regulations issued in accordance with the Local Government Act 2003.
- 18.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Authority's Standing Orders and Financial Regulations, gives it the status of a "code of practice made or approved by or under any enactment", and hence proper practice under the provisions of the Local Government and Housing Act 1989.

**19. RISK MANAGEMENT**

- 19.1 The Council is aware of the risks of passive management of the treasury portfolio. With the support of Capita, the Council's treasury advisors, the Council has proactively managed the portfolio over the year.
- 19.2 Shorter-term variable rates and likely future movement in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.
- 19.3 In the event of a counterparty default, a formal demand for payment, to include principal, contractual interest and default interest, will be made as soon as possible. Such demand will need to meet the criteria as specified in the Insolvency Act Amendments Rules 2010.

- 19.4 The main risk associated to the Council's Capital Programme, allied to this TMSS, is that given the current depressed economy, asset disposals are not fully realised in terms of timing and valuation assumptions. This may increase external borrowing until such sales proceeds are realised and also incur additional costs, of debt repayment to these already included in Finance Strategy.
- 19.5 There is a small increase in risk by placing up to 50% of the total investments with the part-nationalised banks. However, such investments will only be placed by exception, with the express approval of the Chief Financial Officer. The Council will continue to aim to achieve the optimum return on its investments commensurate with its investment priorities of security and liquidity. The Council has been advised that any withdrawal of Government support for the part-nationalised banks could take 12 months.
- 19.6 The change of banks will be closely managed to mitigate any risk to the treasury management day to day activity.

**20. EQUALITY IMPACT ASSESSMENT**

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

**21. CONCLUSION**

- 21.1 See Recommendations.

**22. CONSULTEES**

- 22.1 Capita Asset Services – Treasury Solutions (Treasury Advisors).
- 22.2 Cabinet.
- 22.3 CLT.
- 22.4 Treasury Management Review Panel.
- 22.5 Overview and Scrutiny Committee.

**23. BACKGROUND PAPERS**

- 23.1 Local Government Act 2003.
- 23.2 CIPFA's Revised Prudential Code for Capital Finance in Local Authorities, 2011.
- 23.3 CIPFA's Revised Code of Practice on Treasury Management in the Public Services, 2011.
- 23.4 Local Government and Housing Act 1989.

- 23.5 Council 27/02/13 – Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and updated Prudential Indicators 2013/14.  
[http://www.wyreforest.gov.uk/council/docs/doc47705\\_20130227\\_council\\_agenda.pdf](http://www.wyreforest.gov.uk/council/docs/doc47705_20130227_council_agenda.pdf)
- 23.6 Council 25/09/13 - Annual Report on Treasury Management Service and Actual Prudential Indicators 2012/13.  
[http://www.wyreforest.gov.uk/council/docs/doc48376\\_20130925\\_council\\_agenda.pdf](http://www.wyreforest.gov.uk/council/docs/doc48376_20130925_council_agenda.pdf)
- 23.7 Council 27/11/13 – Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2013/2014.  
[http://www.wyreforest.gov.uk/council/docs/doc48584\\_20131127\\_council\\_agenda.pdf](http://www.wyreforest.gov.uk/council/docs/doc48584_20131127_council_agenda.pdf)

## **APPENDIX 1 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT**

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

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

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

### **Option 1: Regulatory Method**

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

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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

### **Option 3: Asset Life Method**

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

- Longer life assets e.g. freehold land can be charged over a longer period.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday').

The equal instalment method will be used to calculate charges under option 3. Estimated life periods will be determined by the Chief Financial Officer (Section 151 Officer) under powers delegated by Council. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council as determined by the Chief Financial Officer. However, under these powers delegated by Council, the Chief Financial Officer reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

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As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. For example, the Guidance recommends that in the case of Loans and grants towards capital expenditure by third parties (under Regulation 25(1)(b), a charge should be made over a period "equal to the estimated life of the assets in relation to which the third party expenditure is incurred" and this is the approach adopted in this revised MRP Policy. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

This option provides for a reduction in the borrowing need over approximately the asset's life.

In accordance with the Guidance, MRP will be charged in the financial year following that in which the asset is completed or becomes operational.

The Council are satisfied that the policy for calculating MRP set out in this Policy Statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which expenditure provides benefit.

The Chief Financial Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

Should this Council decide to launch the Local Authority Mortgage Scheme (LAMS) using the cash backed option, the mortgage lenders require a 5 year deposit from the local authority to match the 5 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.

## APPENDIX 2 INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions, being Capita Asset Services, UBS and Capital Economics (an independent forecasting consultancy).

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

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

## **APPENDIX 3 PRUDENTIAL AND TREASURY INDICATORS**

### **1 THE CAPITAL PRUDENTIAL INDICATORS 2013/14 – 2016/17**

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

The prudential indicators will be revised in February 2014 as part of the Council's approval of the Financial Strategy 2014 to 2017, as the indicators included within this report are based on current recommendations.

#### **1.1 Capital expenditure**

This prudential indicator is a summary of the Council's capital expenditure plans.

<b>Capital expenditure £'000</b>	<b>2012/13 Actual</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>
Chief Executive	3,296	1,206	2,501	-	-
Community Well-being and Environment	207	958	7,897	3,000	202
Economic Prosperity and Place	1,167	1,201	2,802	5,651	556
Resources	436	-	-	-	-
Vehicle, Equipment and Systems Renewals	440	314	950	348	350
<b>Total</b>	<b>5,546</b>	<b>3,679</b>	<b>14,150</b>	<b>8,999</b>	<b>1,108</b>

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. However, the Council currently has no other long term liabilities.

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.

<b>Capital expenditure £'000</b>	<b>2012/13 Actual</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>
Total	5,546	3,679	14,150	8,999	1,108
<b>Financed by:</b>					
Capital receipts	3,661	1,408	2,856	1,501	-
Capital grants	748	1,078	2,232	1,556	556
Revenue	-	13	250	-	-
<b>Net financing need for the year</b>	<b>1,137</b>	<b>1,180</b>	<b>8,812</b>	<b>5,942</b>	<b>552</b>

#### **1.2 The Council's borrowing need (the Capital Financing Requirement)**

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

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The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council does not currently have such schemes within the CFR.

The current CFR projections are presented below:

£'000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>5,505</b>	<b>6,384</b>	<b>14,866</b>	<b>20,341</b>	<b>19,980</b>
<b>Movement in CFR</b>	<b>935</b>	<b>879</b>	<b>8,482</b>	<b>5,475</b>	<b>(361)</b>

<b>Movement in CFR represented by:</b>					
Net financing need for the year (above)	1,137	1,180	8,812	5,942	552
Less MRP/VRP and other financing movements	(202)	(301)	(330)	(467)	(913)
<b>Movement in CFR</b>	<b>935</b>	<b>879</b>	<b>8,482</b>	<b>5,475</b>	<b>(361)</b>

### 1.3 Affordability prudential indicators

Within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

### 1.4 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.

%	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
<b>Ratio</b>	0.88	2.98	5.81	10.43	16.53

The estimates of financing costs include current commitments.

### 1.5 Incremental impact of capital investment decisions on the Band D Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme 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.

£	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
<b>Council tax - band D</b>	(0.63)	(1.89)	(2.94)

## 1.6 Current portfolio position

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

£'000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
<b>External Debt</b>					
<b>Gross debt at 31<sup>st</sup> March</b>	<b>3,023</b>	<b>6,200</b>	<b>14,509</b>	<b>19,948</b>	<b>19,497</b>
<b>The Capital Financing Requirement</b>	<b>5,505</b>	<b>6,384</b>	<b>14,866</b>	<b>20,341</b>	<b>19,980</b>
<b>Under / (over) borrowing *</b>	<b>2,482</b>	<b>184</b>	<b>357</b>	<b>393</b>	<b>483</b>

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 gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the short term.

\*However, in the future it may be that the Council will not be able to comply with this indicator introduced in November 2012 since any fixed term maturity loans would not be reduced until they are repaid. The CFR would continue to be reduced by MRP, hence the gross external debt may eventually exceed the CFR. The debt would attract excessive premiums if it was prematurely repaid. The unexpected change from net to gross debt in 2012 will be unachievable for many Councils given past decisions made in full accordance with the Prudential Code. Capita's advice is that it is sufficient to disclose this as part of the Strategy review.

## 1.7 Treasury Indicators: limits to borrowing activity

### 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 £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	15,000	25,000	27,000	27,000
Other long term liabilities	-	-	-	-
Total	15,000	25,000	27,000	27,000

### 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.

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

Authorised limit £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	20,000	30,000	33,000	33,000
Other long term liabilities	0	0	0	0
Total	20,000	30,000	33,000	33,000

## 1.8 Treasury management limits on activity

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

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

	2014/15	2015/16	2016/17
<b>Interest rate exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	100%	100%	100%
<b>Maturity structure of fixed interest rate borrowing 2014/15</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	
<b>Maturity structure of variable interest rate borrowing 2014/15</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	

These limits give maximum flexibility for borrowing, to ensure financial advantages of each transaction.

### 1.9 Investment treasury indicator and limit

This indicator sets the limits on 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.

<b>Maximum principal sums invested &gt; 364 days</b>			
<b>£m</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Principal sums invested > 364 days	£2m	£2m	£2m

**APPENDIX 4 ECONOMIC BACKGROUND (AS PROVIDED BY CAPITA ASSET SERVICES – TREASURY SOLUTIONS (TREASURY ADVISORS))**

Economic Background

**4.1 Global economy**

**Eurozone.** 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 Eurozone (EZ) finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen United Kingdom (UK) growth. The European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which ask for a bailout, 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 Gross Domestic Product (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 United States (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 European Union (EU) banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the EZ 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 getting a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness.

**United States of America.** The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its \$85bn per month asset purchases programme of quantitative easing by \$10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house

prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

**China.** 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 introduce other economic reforms, appears to have stalled. However, at long last, Japan has seen strong growth of 4% in the first two quarters of 2013 which portends well for the hopes that Japan can escape from the bog of stagnation and help support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio was 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 ¥190 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.

## 4.2 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 Monetary Policy Committee’s (MPC) intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors,

services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below Consumer Price Index (CPI) inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

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

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

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

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

### **4.3 Capita Asset Services forward view**

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

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

The longer run trend is for gilt yields and Public Works Loan Board (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 European Central Bank (ECB) has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.

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- 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 populations in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

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

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

**APPENDIX 5 SPECIFIED AND NON-SPECIFIED INVESTMENTS****SPECIFIED INVESTMENTS:**

**The Council has determined to authorise Specified Investments as follows:**

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility (DMADF) – UK Government	-	In-house
The Councils Own Bank - Transactional	End of day balance £1m	In-house
The Council's Own Bank - Investments	Green	In-house
Term deposits – local authorities	-	In-house
Term deposits – banks and building societies *	Green	In-house
Money Market Funds and Financial Instruments	Green	In-house

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total investments*</b>	<b>Max. maturity period</b>
UK nationalised banks* – currently Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in the Table above.	Blue	In-house	<b>50% (subject to a maximum value of £5m, whichever is the lower)  Requires Chief Financial Officer approval if greater than 25%</b>	<b>As per colour</b>
Banks nationalised by high credit rated (AAA sovereign rating) countries – non UK*. For UK revert to Sector Creditworthiness Methodology	Green	In-house and Fund Managers	<b>25%</b>	<b>As per colour</b>
Government guarantee (explicit) on ALL deposits by high credit rated (non UK AAA sovereign rating) countries**. For UK revert to Sector Creditworthiness Methodology	Green	In-house and Fund Managers	<b>25%</b>	<b>As per colour</b>

## Agenda Item No. 8.2

- \* Where a bank is part of a group then the total exposure to the group will be the same as the individual exposure assigned to the parent organisation
- \*\* e.g. Singapore (AAA); specified list of countries approved for investing with their banks detailed in Appendix 6

### Additional Information on Specified Investments as Detailed Above

**Nationalised banks** in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign them a viability individual rating for their stand alone financial strength. Accordingly, Fitch assigned a BBB rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible. Current examples include Lloyds Banking Group and Royal Bank of Scotland Group.

**Other countries.** The US, countries within the EU and Switzerland (and other countries) are currently providing major support packages to their banking systems. The Council will only consider investments with non UK countries that are AAA rated (for UK revert to Sector Creditworthiness Methodology).

**Council's Own Bank – For transactional purposes.** Where the Council's own bankers fail to meet the basic credit criteria, balances will be minimised as far as possible with an upper limit of £1m. This allows for reasonable flexibility needed for day to day cash flow management.

**Council's Own Bank – For investment purposes.** Where the Council's own bankers fail to meet the basic credit criteria, it shall not be used for investment purposes.

## NON-SPECIFIED INVESTMENTS:

The Council has determined to authorise Non-Specified Investments as follows:

### 1. Maturities of ANY period

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
<b>Fixed term deposits with variable rate and variable maturities: - Structured deposits</b>	Green	In-house	25%	As per colour
Treasury Bills	UK sovereign rating	In-house and Fund Managers	25%	6 months
Bonds issued by multi-lateral development banks	AAA	In-house and Fund Managers	25%	As per colour
CDs or Corporate Bonds with banks and building societies	Green	In-house and Fund Managers	25%	As per colour

### 2. Maturities in excess of 1 year

	* Minimum Credit Criteria/Colour Band	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	-	In-house	25%	As per colour
Term deposits – banks and building societies	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies NOT covered by UK Government support package (implicit guarantee)	Green	In-house	25%	As per colour
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	25%	As per colour

**For both Specified and Non Specified Investments, due to the uncertainty in the financial markets, it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from this criteria to ensure that security of capital remains the paramount consideration. Currently this may involve the use of the Debt Management Account Deposit Facility (DMADF), AAA rated Money Market Funds and institutions (as deemed appropriate) with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments. This is also applicable to the approved countries detailed in Appendix 6.**

**APPENDIX 6 APPROVED NON UK COUNTRIES FOR INVESTMENTS**

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This list will be added to or deducted from by officers should ratings change in accordance with this policy. For the UK revert to Sector Methodology (currently AA-).

In addition to the minimum sovereign credit rating, no more than 25% would be placed with any individual non-UK country at any time, should they meet the credit worthiness criteria.

**APPENDIX 7 TREASURY MANAGEMENT SCHEME OF DELEGATION**

**(i) Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

**(ii) Committees/Council/responsible body – Cabinet, with recommendations from the Overview and Scrutiny Committee and Treasury Management Review Panel as appropriate**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

**(iii) Body/person(s) with responsibility for scrutiny – Cabinet, with recommendations from the Overview and Scrutiny Committee and Treasury Management Review Panel as appropriate**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

**APPENDIX 8 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151  
OFFICER**

**The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers

# CAPITA

Asset Services

## Credit List

Friday 10th January 2014



**Upper Boundary (iTraxx + 50bps) 135.99**
**Top 5 Counterparties closest to moving FROM "Monitoring" TO "Out of Range" status**

Reference	Institution	Current CDS	Proximity to Boundary	Week % Change
1	National Australia Bank Ltd	110.98	25.01	0.00%
2	Westpac Banking Corporation	109.00	27.00	0.00%
3	Standard Chartered Bank	102.17	33.82	-2.22%
4	Australia and New Zealand Banking Group Ltd	100.15	35.84	0.00%
5	Commonwealth Bank of Australia	99.20	36.79	0.00%

**iTraxx Senior Financials Index 85.989 (83.43793)**
**Top 5 Counterparties closest to moving FROM "In Range" TO "Monitoring" status**









Reference	Institution	Current CDS	Proximity to Boundary	Week % Change
1	Deutsche Bank AG	84.17	1.82	4.98%
2	Landesbank Hessen-Thuringen Girozentrale (Helaba)	80.83	5.15	0.00%
3	ING Bank NV	79.44	6.54	-1.10%
4	Landesbank Baden Wuerttemberg	78.33	7.66	0.00%
5	Bank of America, N.A.~	77.50	8.49	-0.04%

## Institution Benchmark

iTraxx Senior Financials Index 85.989 (83.43793)  
Upper Boundary (iTraxx + 50bps) 135.99

## Sovereign Benchmark

iTraxx SOVX Western Europe Index 56.7 (60.03)  
Upper Boundary (SOVX + 20bps) 76.7

	Counterparty		Credit Ratings																		Subjective Overlay								
			Fitch Rating								Moody's Ratings						S&P Ratings				CDS Data								
			Long Term Status	Long Term	Short Term Status	Short Term	Viability Status	Viability	Support Status	Support	Long Term Status	Long Term	Short Term Status	Short Term	FSR Status	FSR	Long Term Status	Long Term	Short Term Status	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	10/01/2014	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted with manual override)
	Abu Dhabi (U.A.E)		SB	AA						SB	Aa2				SB	AA			Not Applicable	Not Applicable							Not Applicable		
	National Bank of Abu Dhabi		SB	AA-		F1+		a-		1	SB	Aa3		P-1	SB	C	SB	AA-		A-1+	R - 6 mths	R - 6 mths						R - 6 mths	
	Australia		SB	AAA							SB	Aaa				SB	AAA			Not Applicable	Not Applicable	39.0	0.0%	-1.7%	-25.3%	-26.6%	In Range	Not Applicable	
◆	Australia and New Zealand Banking Group Ltd		SB	AA-		F1+		aa-		1	SB	Aa2		P-1	SB	B-	SB	AA-		A-1+	O - 12 mths	O - 12 mths	100.2	0.0%	0.0%	0.0%	-16.8%	Monitoring	R - 6 mths
◆	Commonwealth Bank of Australia		SB	AA-		F1+		aa-		1	SB	Aa2		P-1	SB	B-	SB	AA-		A-1+	O - 12 mths	O - 12 mths	99.2	0.0%	0.0%	0.0%	5.7%	Monitoring	R - 6 mths
◆	National Australia Bank Ltd		SB	AA-		F1+		aa-		1	SB	Aa2		P-1	SB	B-	SB	AA-		A-1+	O - 12 mths	O - 12 mths	111.0	0.0%	0.0%	0.0%	-8.0%	Monitoring	R - 6 mths
◆	Westpac Banking Corporation		SB	AA-		F1+		aa-		1	SB	Aa2		P-1	SB	B-	SB	AA-		A-1+	O - 12 mths	O - 12 mths	109.0	0.0%	0.0%	0.0%	-9.5%	Monitoring	R - 6 mths
(I)	Belgium		SB	AA							NO	Aa3				NO	AA			Not Applicable	Not Applicable	42.3	-4.6%	-10.4%	-24.6%	-38.1%	In Range	Not Applicable	
25 (I)	BNP Paribas Fortis		SB	A+		F1		a		1	SB	A2		P-1	SB	C-	NO	A+		A-1	G - 100 days	G - 100 days						G - 100 days	
	Canada		SB	AAA							SB	Aaa				SB	AAA			Not Applicable	Not Applicable							Not Applicable	
	Bank of Montreal		SB	AA-		F1+		aa-		1	SB	Aa3		P-1	SB	C+	SB	A+		A-1	O - 12 mths	O - 12 mths						O - 12 mths	
	Bank of Nova Scotia		SB	AA-		F1+		aa-		1	SB	Aa2		P-1	SB	B-	SB	A+		A-1	O - 12 mths	O - 12 mths						O - 12 mths	
	Canadian Imperial Bank of Commerce		SB	AA-		F1+		aa-		1	SB	Aa3		P-1	SB	C+	SB	A+		A-1	O - 12 mths	O - 12 mths						O - 12 mths	
	National Bank of Canada		SB	A+		F1		a+		1	SB	Aa3		P-1	SB	C	SB	A		A-1	R - 6 mths	R - 6 mths						R - 6 mths	
	Royal Bank of Canada		SB	AA		F1+		aa		1	SB	Aa3		P-1	SB	C+	SB	AA-		A-1+	O - 12 mths	O - 12 mths						O - 12 mths	
	Toronto Dominion Bank		SB	AA-		F1+		aa-		1	SB	Aa1		P-1	SB	B	SB	AA-		A-1+	P - 24 mths	P - 24 mths						P - 24 mths	
	Denmark		SB	AAA							SB	Aaa				SB	AAA			Not Applicable	Not Applicable	21.0	-1.1%	5.0%	-8.0%	-33.4%	In Range	Not Applicable	
(I)	Danske Bank		SB	A		F1		a		1	PO	Baa1		P-2	SB	C-	SB	A-		A-2	N/C - 0 mths	N/C - 0 mths						N/C - 0 mths	
	Finland		SB	AAA							SB	Aaa				SB	AAA			Not Applicable	Not Applicable	20.3	-5.7%	0.8%	-5.4%	-24.9%	In Range	Not Applicable	
1(I)	Nordea Bank Finland plc ~		SB	AA-		F1+		aa-		1	SB	Aa3		P-1	SB	C	NO	AA-		A-1+	O - 12 mths	O - 12 mths						O - 12 mths	
(I)	France		SB	AA+							NO	Aa1				SB	AA			Not Applicable	Not Applicable	51.0	-2.9%	-3.0%	-22.1%	-35.5%	In Range	Not Applicable	
(I)	BNP Paribas		SB	A+		F1		a+		1	SB	A2		P-1	SB	C-	NO	A+		A-1	R - 6 mths	G - 100 days	77.2	-0.4%	-7.5%	-26.9%	-46.0%	In Range	G - 100 days
3(I)	Credit Industriel et Commercial		SB	A+		F1		a+		1	NO	Aa3		P-1	SB	C-	SB	A		A-1	R - 6 mths	R - 6 mths						R - 6 mths	
(I) ◆	Credit Agricole SA		SB	A		F1		a		1	SB	A2		P-1	SB	D	NO	A		A-1	G - 100 days	G - 100 days	97.5	1.9%	-4.5%	-29.5%	-45.9%	Monitoring	N/C - 0 mths
(I) ◆	Societe Generale		SB	A		F1		a-		1	SB	A2		P-1	SB	C-	NO	A		A-1	G - 100 days	G - 100 days	94.2	-0.4%	-4.2%	-28.7%	-47.5%	Monitoring	N/C - 0 mths
(I)	Germany		SB	AAA							NO	Aaa				SB	AAA			Not Applicable	Not Applicable	23.5	-6.5%	0.0%	-2.1%	-24.4%	In Range	Not Applicable	
(I)	Deutsche Bank AG		SB	A+		F1+		a		1	NO	A2		P-1	NO	C-	SB	A		A-1	G - 100 days	G - 100 days	84.2	5.0%	1.0%	-16.0%	-26.1%	In Range	G - 100 days

APPENDIX 9

	Counterparty	Credit Ratings																		Subjective Overlay								
		Fitch Rating								Moody's Ratings					S&P Ratings					CDS Data								
		Long Term Status	Long Term	Short Term Status	Short Term	Viability Status	Viability	Support Status	Support	Long Term Status	Long Term	Short Term Status	Short Term	FSR Status	FSR	Long Term Status	Long Term			Short Term Status	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	10/01/2014	Week % Change	1 Month % Change	3 Month % Change	
	DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	SB	A+		F1+				1	SB	A1		P-1	SB	C-	SB	AA-		A-1+	G - 100 days	G - 100 days							G - 100 days
	Landesbank Baden Wuerttemberg	SB	A+		F1+		bbb-		1	SB	A3		P-2	SB	D+					N/C - 0 mths	N/C - 0 mths	78.3	0.0%	0.0%	0.0%	-3.3%	In Range	N/C - 0 mths
	Landesbank Berlin AG	SB	A+		F1+		bbb-		1	SB	A1		P-1	SB	D+					G - 100 days	G - 100 days							G - 100 days
	Landesbank Hessen-Thueringen Girozentrale (Helaba)	SB	A+		F1+				1	SB	A2		P-1	SB	D+	SB	A		A-1	G - 100 days	G - 100 days	80.8	0.0%	0.0%	0.0%	2.8%	In Range	G - 100 days
(I)	Landwirtschaftliche Rentenbank	SB	AAA		F1+				1	NO	Aaa		P-1			SB	AAA		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I)20	UniCredit Bank AG (Suspended)	SB	A+		F1+		a-		1	NO	A3		P-2	NO	C-	NO	A-		A-2	G - 100 days	N/C - 0 mths	143.6	-4.0%	-3.3%	-12.4%	-18.2%	Out Of Range	N/C - 0 mths
	Hong Kong	SB	AA+							SB	Aa1					SB	AAA			Not Applicable	Not Applicable							Not Applicable
	The Hong Kong and Shanghai Banking Corporation Ltd	SB	AA-		F1+		aa-		1	SB	Aa2		P-1	SB	B	SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I)	Luxembourg	SB	AAA							NO	Aaa					SB	AAA			Not Applicable	Not Applicable							Not Applicable
(I)	Banque et Caisse d'Epargne de l'Etat									NO	Aa1		P-1	SB	C	SB	AA+		A-1+	R - 6 mths	R - 6 mths							R - 6 mths
	Clearstream Banking	SB	AA		F1+		aa		1							SB	AA		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
(I)	Netherlands	NO	AAA							NO	Aaa					SB	AA+			Not Applicable	Not Applicable	35.2	-2.7%	-4.7%	-25.7%	-36.5%	In Range	Not Applicable
(I)	Bank Nederlandse Gemeenten	NO	AAA		F1+				1	NO	Aaa		P-1	NO	A	SB	AA+		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
6 (I)	Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	NO	AA-		F1+				1	NO	Aa2		P-1	NO	B-	NO	AA-		A-1+	O - 12 mths	R - 6 mths	64.3	-4.0%	-9.6%	-31.2%	-34.0%	In Range	R - 6 mths
(I)	ING Bank NV	NO	A+		F1+		a		1	NO	A2		P-1	NO	C-	SB	A		A-1	G - 100 days	G - 100 days	79.4	-1.1%	-7.1%	-26.5%	-41.2%	In Range	G - 100 days
	Norway	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	12.7	-0.8%	-7.4%	-14.3%	-33.1%	In Range	Not Applicable
7	DnB Bank	SB	A+		F1		a+		1	SB	A1		P-1	SB	C-	SB	A+		A-1	R - 6 mths	R - 6 mths							R - 6 mths
	Qatar									SB	Aa2					SB	AA			Not Applicable	Not Applicable	59.2	5.7%	-11.5%	-16.3%	-22.6%	Monitoring	Not Applicable
	Qatar National Bank	SB	A+		F1		a		1	SB	Aa3		P-1	SB	C-	SB	A+		A-1	R - 6 mths	R - 6 mths							R - 6 mths
(I)	Saudi Arabia	PO	AA-							SB	Aa3					PO	AA-			Not Applicable	Not Applicable							No Data Available
(I)	Arab National Bank	SB	A		F1		a		1	SB	A1		P-1	SB	C	PO	A		A-1	G - 100 days	G - 100 days							G - 100 days
	Riyad Bank	SB	A+		F1		a		1	SB	A1		P-1	SB	C	SB	A+		A-1	R - 6 mths	R - 6 mths							R - 6 mths
	Samba Financial Group	SB	A+		F1		a		1	SB	Aa3		P-1	SB	C+	SB	A+		A-1	R - 6 mths	R - 6 mths							R - 6 mths
	Singapore	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable							Not Applicable
8	DBS Bank Ltd	SB	AA-		F1+		aa-		1	SB	Aa1		P-1	SB	B	SB	AA-		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
	Oversea Chinese Banking Corporation Ltd	SB	AA-		F1+		aa-		1	SB	Aa1		P-1	SB	B	SB	AA-		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
	United Overseas Bank Ltd	SB	AA-		F1+		aa-		1	SB	Aa1		P-1	SB	B	SB	AA-		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
	Sweden	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	15.0	4.6%	1.1%	-10.0%	-33.4%	In Range	Not Applicable
9(I)	Nordea Bank AB	SB	AA-		F1+		aa-		1	SB	Aa3		P-1	SB	C	NO	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
10(I)	Skandinaviska Enskilda Banken AB	SB	A+		F1		a+		1	SB	A1		P-1	SB	C-	NO	A+		A-1	R - 6 mths	R - 6 mths							R - 6 mths

	Counterparty	Credit Ratings																		Subjective Overlay									
		Fitch Rating								Moody's Ratings						S&P Ratings				CDS Data									
		Long Term Status	Long Term	Short Term Status	Short Term	Viability Status	Viability	Support Status	Support	Long Term Status	Long Term	Short Term Status	Short Term	FSR Status	FSR	Long Term Status	Long Term	Short Term Status	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	10/01/2014	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change		CDS Status	Suggested Duration (CDS Adjusted with manual override)
11	Swedbank AB	SB	A+		F1	a+		1	SB	A1		P-1	SB	C-	SB	A+		A-1	R - 6 mths	R - 6 mths							R - 6 mths		
(I)	Svenska Handelsbanken AB	SB	AA-		F1+		aa-		1	SB	Aa3		P-1	SB	C	NO	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths	
	Switzerland	SB	AAA						SB	Aaa					SB	AAA			Not Applicable	Not Applicable							Not Applicable		
12	Credit Suisse AG	SB	A		F1		a		1	SB	A1		P-1	SB	C-	SB	A		A-1	G - 100 days	G - 100 days	67.1	-1.9%	-7.1%	-27.3%	-40.0%	In Range	G - 100 days	
	UBS AG	SB	A		F1		a		1	SB	A2		P-1	SB	C-	SB	A		A-1	G - 100 days	G - 100 days	61.4	-2.7%	-7.2%	-28.4%	-37.1%	In Range	G - 100 days	
(I)	U.K	SB	AA+						SB	Aa1					NO	AAA			Not Applicable	Not Applicable	25.5	-0.6%	-2.8%	-18.2%	-46.5%	In Range	Not Applicable		
13	Bank of New York Mellon (International) Ltd	SB	AA-		F1+			1											O - 12 mths	O - 12 mths							O - 12 mths		
(I) ⚡	Barclays Bank plc	SB	A		F1		a	1	NO	A2		P-1	SB	C-	SB	A		A-1	G - 100 days	G - 100 days	87.9	0.0%	-6.5%	-24.3%	-41.0%	Monitoring	N/C - 0 mths		
14	Cater Allen																		G - 100 days	G - 100 days							G - 100 days		
(I) 15	Clydesdale Bank	SB	A		F1		bbb+	1	SB	Baa2		P-2	SB	D+	NO	BBB+		A-2	N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
(I)	Co-operative Bank Plc	NO	B		B	UP	b	5	NO	Caa1		NP	SB	E					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
16	Credit Suisse International	SB	A		F1			1	SB	A1		P-1			SB	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths		
(I)⚡	Goldman Sachs International Bank ~	SB	A		F1										NO	A		A-1	R - 6 mths	R - 6 mths	90.5	-1.7%	-8.3%	-30.6%	-41.0%	Monitoring	G - 100 days		
(I)	HSBC Bank plc	SB	AA-		F1+		a+	1	NO	Aa3		P-1	SB	C	NO	AA-		A-1+	O - 12 mths	O - 12 mths	63.4	0.3%	-3.7%	-25.1%	-41.5%	In Range	O - 12 mths		
	MBNA Europe Bank	SB	A-		F1			1											R - 6 mths	R - 6 mths							R - 6 mths		
(I)19	Santander UK plc	SB	A		F1		a	1	NO	A2		P-1	SB	C-	NO	A		A-1	G - 100 days	G - 100 days							G - 100 days		
(I)⚡	Standard Chartered Bank	SB	AA-		F1+		aa-	1	SB	A1		P-1	SB	B-	NO	AA-		A-1+	O - 12 mths	O - 12 mths	102.2	-2.2%	-9.7%	-16.9%	-37.0%	Monitoring	R - 6 mths		
(I)	Sumitomo Mitsui Banking Corporation Europe Ltd ~	SB	A-		F1			1	SB	Aa3		P-1	SB	C	NO	A+		A-1	G - 100 days	G - 100 days	59.7	0.1%	-1.6%	-22.7%	-44.8%	In Range	G - 100 days		
	UBS Ltd	SB	A		F1			1	SB	A2		P-1			SB	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths		
(I)	U.S.A	NW	AAA						SB	Aaa					SB	AA+			Not Applicable	Not Applicable	27.8	-2.6%	-4.7%	-26.1%	2.5%	In Range	Not Applicable		
(I)	Bank of America, N.A.~	SB	A		F1		a-	1	SB	A2		P-1	SB	C-	NO	A		A-1	G - 100 days	G - 100 days	77.5	0.0%	-6.3%	-28.6%	-37.3%	In Range	G - 100 days		
18	Bank of New York Mellon, The	SB	AA-		F1+		aa-	1	SB	Aa2		P-1	SB	B-	SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths		
	Citibank, N.A. ~	SB	A		F1		a-	1	SB	A2		P-1	SB	C-	SB	A		A-1	G - 100 days	G - 100 days	71.0	-0.2%	-7.0%	-30.1%	-41.4%	In Range	G - 100 days		
(I)	HSBC Bank USA, N.A.	SB	AA-		F1+		a-	1	SB	A1		P-1	NO	C-	NO	AA-		A-1+	R - 6 mths	R - 6 mths							R - 6 mths		
	JP Morgan Chase Bank NA	SB	A+		F1		a+	1	SB	Aa3		P-1	SB	C	SB	A+		A-1	R - 6 mths	R - 6 mths	67.9	1.0%	-5.7%	-23.7%	-27.9%	In Range	R - 6 mths		
	Northern Trust Company	SB	AA-		F1+		aa-	5	SB	A1		P-1	SB	B-	SB	AA-		A-1+	G - 100 days	G - 100 days							G - 100 days		
(I)	State Street Bank and Trust Company	PO	A+		F1+		a+	1	SB	Aa3		P-1	SB	B-	SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths		
	Wells Fargo Bank NA	SB	AA-		F1+		aa-	1	SB	Aa3		P-1	SB	C+	SB	AA-		A-1+	O - 12 mths	O - 12 mths	39.3	-1.4%	-11.5%	-37.1%	-46.9%	In Range	O - 12 mths		
	UK BUILDING SOCIETIES																												
	Coventry BS	SB	A		F1		a	5	SB	A3		P-2	SB	C					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
	Leeds BS	SB	A-		F2		a-	5	SB	A3		P-2	SB	C					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		

	Counterparty	Credit Ratings																		Subjective Overlay										
		Fitch Rating								Moody's Ratings						S&P Ratings				CDS Data										
		Long Term Status	Long Term	Short Term Status	Short Term	Viability Status	Viability	Support Status	Support	Long Term Status	Long Term	Short Term Status	Short Term	FSR Status	FSR	Long Term Status	Long Term			Short Term Status	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	10/01/2014	Week % Change	1 Month % Change	3 Month % Change		6 Month % Change	CDS Status
(I)	Nationwide BS	SB	A		F1		a		1	SB	A2		P-1	SB	C	NO	A		A-1	G - 100 days	G - 100 days							G - 100 days		
	Newcastle BS	SB	BB+		B		bb+		5											N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
	Nottingham BS									SB	Baa2		P-2	SB	C-					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
	Principality BS	SB	BBB+		F2		bbb+		5	SB	Ba1		NP	SB	D+					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
	Skipton BS	SB	BBB-		F3		bbb-		5	SB	Ba1		NP	SB	D+					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
	West Bromwich BS									SB	B2		NP	SB	E+					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
	Yorkshire BS	SB	BBB+		F2		bbb+		5	SB	Baa2		P-2	SB	C-					N/C - 0 mths	N/C - 0 mths							N/C - 0 mths		
	AAA rated and Government backed securities																													
(I)	Collateralised LA Deposit*		AA+								Aa1						AAA			Y - 60 mths	Y - 60 mths							No Data Available		
(I)	Debt Management Office		AA+								Aa1						AAA			Y - 60 mths	Y - 60 mths							No Data Available		
	Multilateral Development Banks		AAA								Aaa						AAA			Y - 60 mths	Y - 60 mths							No Data Available		
	Supranationals		AAA								Aaa						AAA			Y - 60 mths	Y - 60 mths							No Data Available		
(I)	UK Gilts		AA+								Aa1						AAA			Y - 60 mths	Y - 60 mths							No Data Available		
	* This is an assumed rating on the basis that all collateral is LA LOBOs which is government risk																													
	NATIONALISED AND PART NATIONALISED BANKS																													
(I)	Lloyds Banking Group plc	SB	A		F1		bbb+		1	NO	A3					NO	A-		A-2									Not Applicable		
(I)	Bank of Scotland Plc	SB	A		F1				1	NO	A2		P-1	SB	D+	NO	A		A-1	B - 12 mths	B - 12 mths							Not Applicable		
(I)	Lloyds Bank Plc	SB	A		F1		bbb+		1	NO	A2		P-1	SB	C-	NO	A		A-1	B - 12 mths	B - 12 mths	77.7	-4.2%	-9.9%	-30.9%	-49.3%		Not Applicable		
(I)	Royal Bank of Scotland Group plc	SB	A		F1		bbb		1	NO	Baa1		P-2			NO	BBB+		A-2									Not Applicable		
(I)	National Westminster Bank Plc	SB	A		F1				1	NO	A3		P-2	SB	D+	NO	A-		A-2	B - 12 mths	B - 12 mths							Not Applicable		
(I)	The Royal Bank of Scotland Plc	SB	A		F1		bbb		1	NO	A3		P-2	SB	D+	NO	A-		A-2	B - 12 mths	B - 12 mths	108.1	-0.5%	-6.0%	-23.3%	-50.2%		Not Applicable		
(I)	Ulster Bank Ltd	SB	A-		F1		ccc		1	NO	Baa2		P-2	NO	D-	NO	BBB+		A-2	B - 12 mths	B - 12 mths							Not Applicable		

## Key

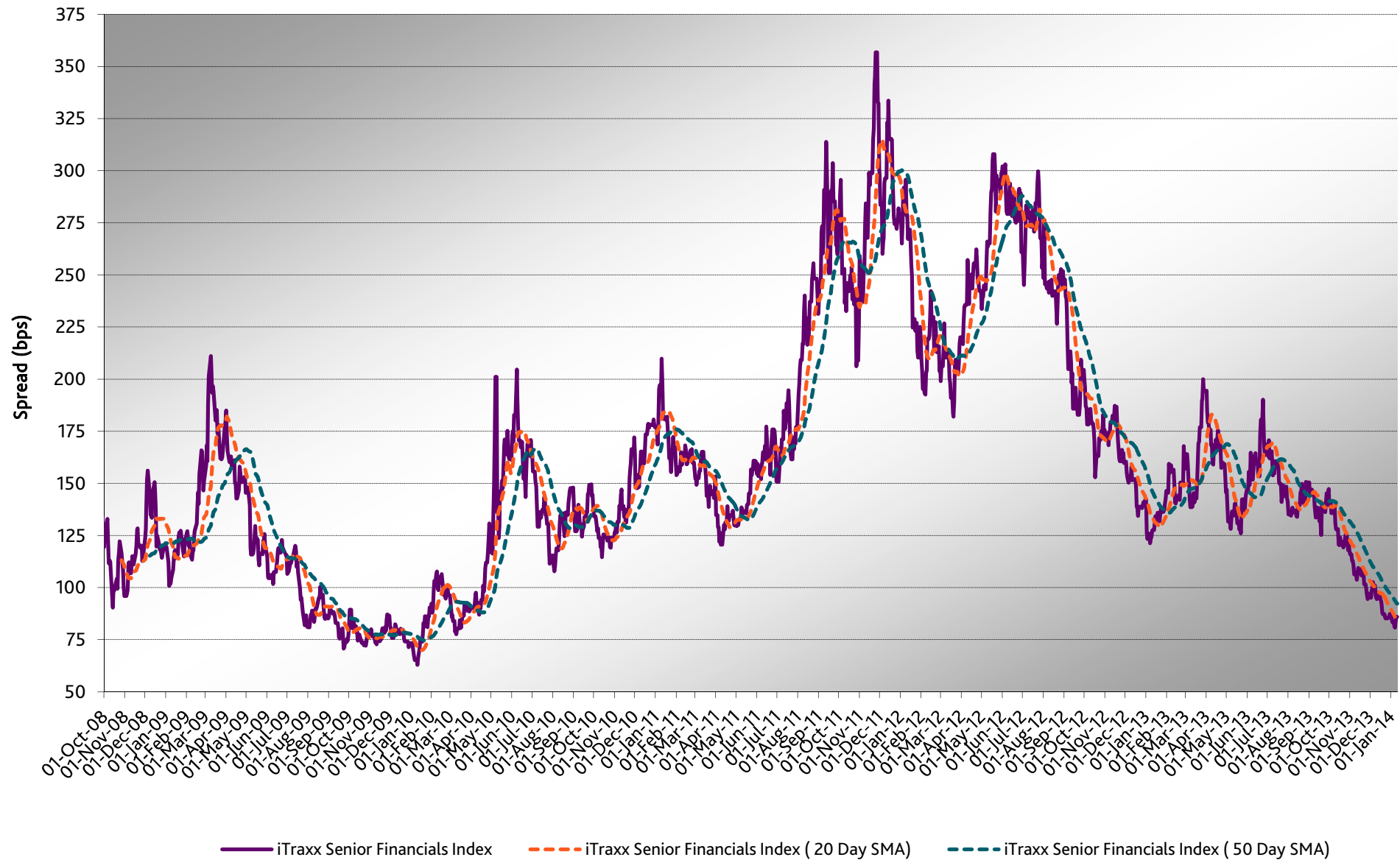
■	Newly included on, or deleted from, the list OR Changes to ratings which have a significant effect	60 Months	Y
□	Change to ratings	24 Months	P
(!)	Ratings on Rating Watch / Rating Alert / Rating Outlook	12 Months	B
•	New rating/ affirmation of rating	12 Months	O
×	Ratings withdrawn	6 Months	R
◆	Change of duration based on CDS overlay	100 Days	G
		0 Months	N/C
NO	Negative Outlook	DG NO	Downgrade & Negative Outlook
NW	Negative Watch	DG NW	Downgrade & Negative Watch
DG	Downgrade	DG RD	Downgrade & Under Review For Possible Downgrade
RD	Under Review for Possible Downgrade	DG SB	Downgrade & Stable Outlook
PO	Positive Outlook	DG EW	Downgrade & Evolving Watch
PW	Positive Watch	DG EO	Downgrade & Evolving Outlook
UP	Upgrade	DG DO	Downgrade & Developing Outlook
RU	Under Review for Possible Upgrade	DG UN	Downgrade & Direction Uncertain
SB	Stable Outlook	UP PO	Upgrade & Positive Outlook
EW	Evolving Watch	UP PW	Upgrade & Positive Watch
EO	Evolving Outlook	UP RU	Upgrade & Under Review For Possible Upgrade
WD	Rating Withdrawn	UP SB	Upgrade & Stable Outlook
DO	Developing Outlook	UP EW	Upgrade & Evolving Watch
UN	Direction Uncertain	UP EO	Upgrade & Evolving Outlook
		UP DO	Upgrade & Developing Outlook
		UP UN	Upgrade & Direction Uncertain

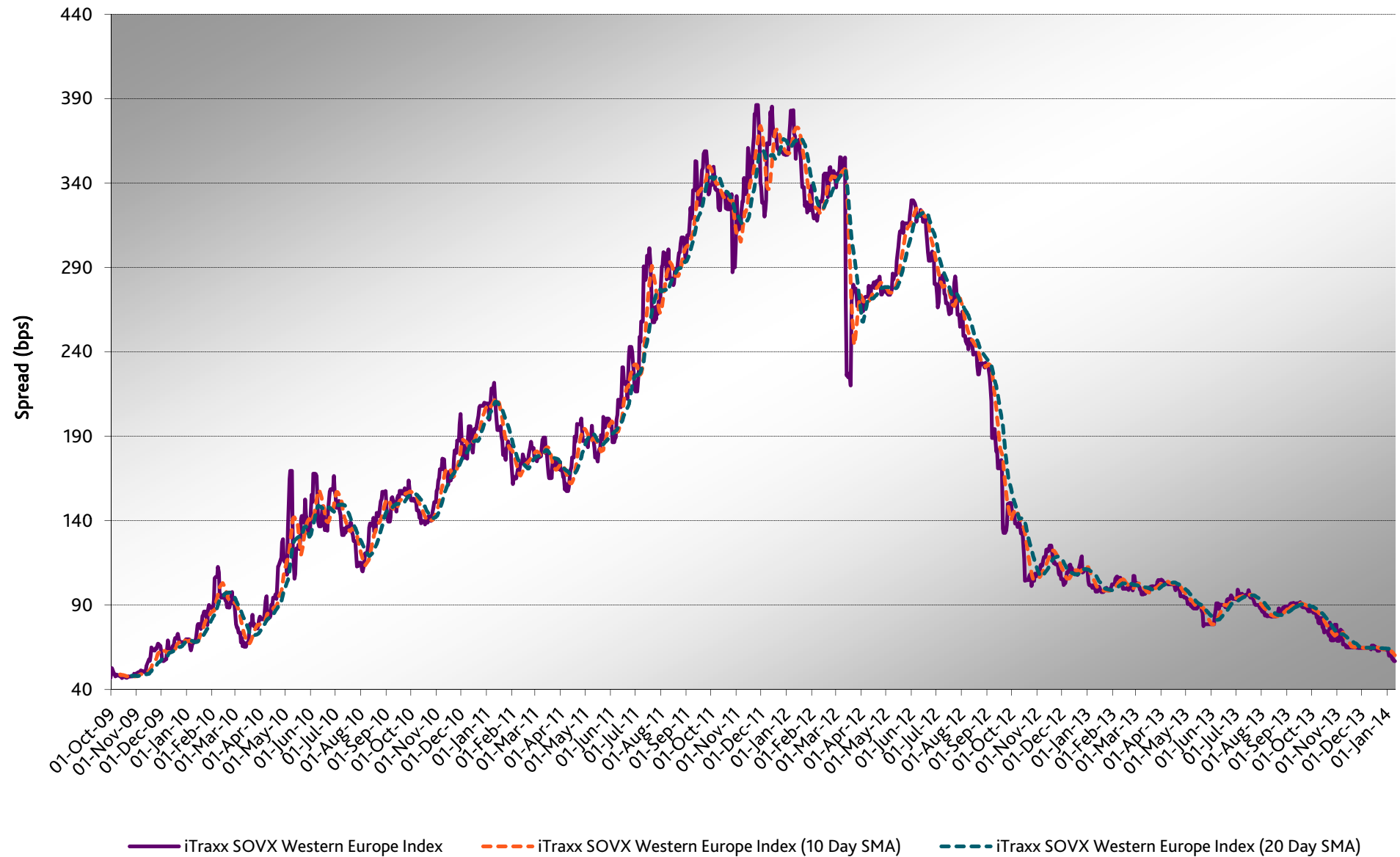
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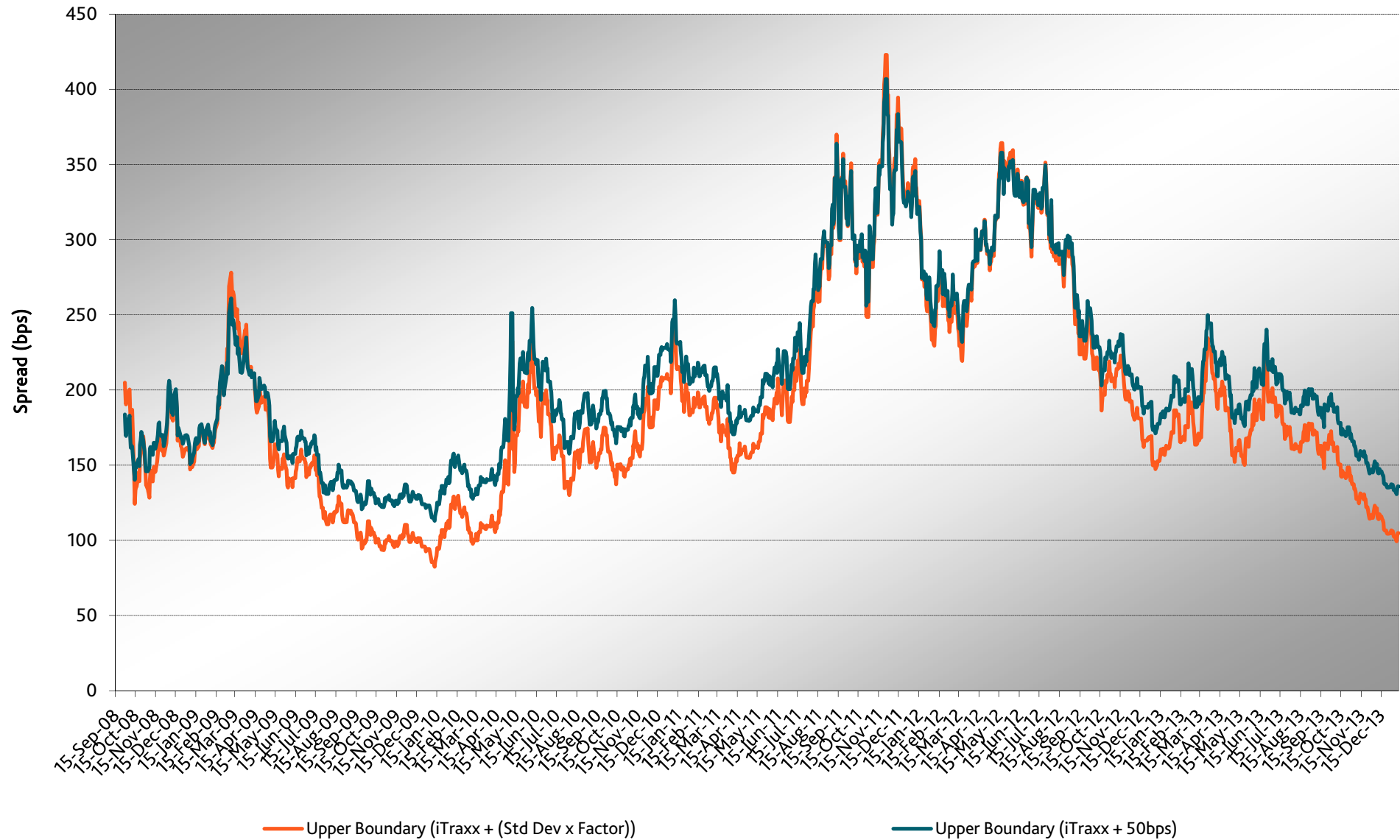
Reference	Institution	Notes
1	Nordea Bank Finland Plc	Name changed from Mertia Bank Ltd.
2	Credit Agricole Corporate and Investment Bank	Name changed from CALYON Corporate and Investment Bank
3	Credit Industriel et Commercial	Name changed from Compagnie Financiere de CIC et de l'Union Europeenne to CIC Group and then changed to Credit Industriel et Commercial (CIC)
4	Intesa Sanpaolo	Merger between Banca Intesa and San Paolo IMI
5	UniCredit SpA	Merger between Unicredit Banca di Roma Spa and Unicredit SpA
6	Coöperatieve Centrale Raiffeisen - Boerenleenbank BA	Also trades as Rabobank/Rabobank International/Rabobank Netherland
7	DnB NOR Bank	Name changed from DnB NOR Bank. Merger between the former Den Norske Bank and Union Bank of Norway January 04
8	DBS Bank Ltd	Name changed from Development Bank of Singapore Ltd
9	Nordea Bank AB	(publ) Name changed from Nordea Bank Sweden (previously Nordbanken AB)
10	Skandinaviska Enskilda Banken AB	(publ) (SEB AB)
11	Swedbank AB	Name changed from ForeningsSparbanken AB
12	Credit Suisse	Merger between Credit Suisse and Credit Suisse First Boston
13	Bank of New York Mellon (International) Ltd	Formerly, The Bank of New York Europe Ltd
14	Cater Allen	Unconditionally guaranteed by Santander UK
15	Clydesdale Bank	Yorkshire Bank is the trading entity of Clydesdale Bank
16	Credit Suisse International	Name changed from Credit Suisse First Boston International
17	DB UK Bank Limited	Name changed from Morgan Grenfell and Co Ltd
18	Bank of New York Mellon, The	Formerly Bank of New York, The
19	Santander UK plc	Name changed from Abbey National plc
20	UniCredit Bank AG	Name changed from Bayerische Hypo und Vereinsbank
21	Belfius Bank	Name changed from Dexia Bank Belgium
22	Sumitomo Mitsui Trust Bank, Limited	Name changed from Sumitomo Trust & Banking Co Ltd
23	Permanent TSB plc	Name changed from Irish life & Permanent plc
24	Northern Rock plc	Name changed from Northern Rock plc to Virgin Money plc
25	Fortis Bank	Name changed from Fortis Bank to BNP Paribas Fortis
~		CDS prices inherited from Parent/Group Company

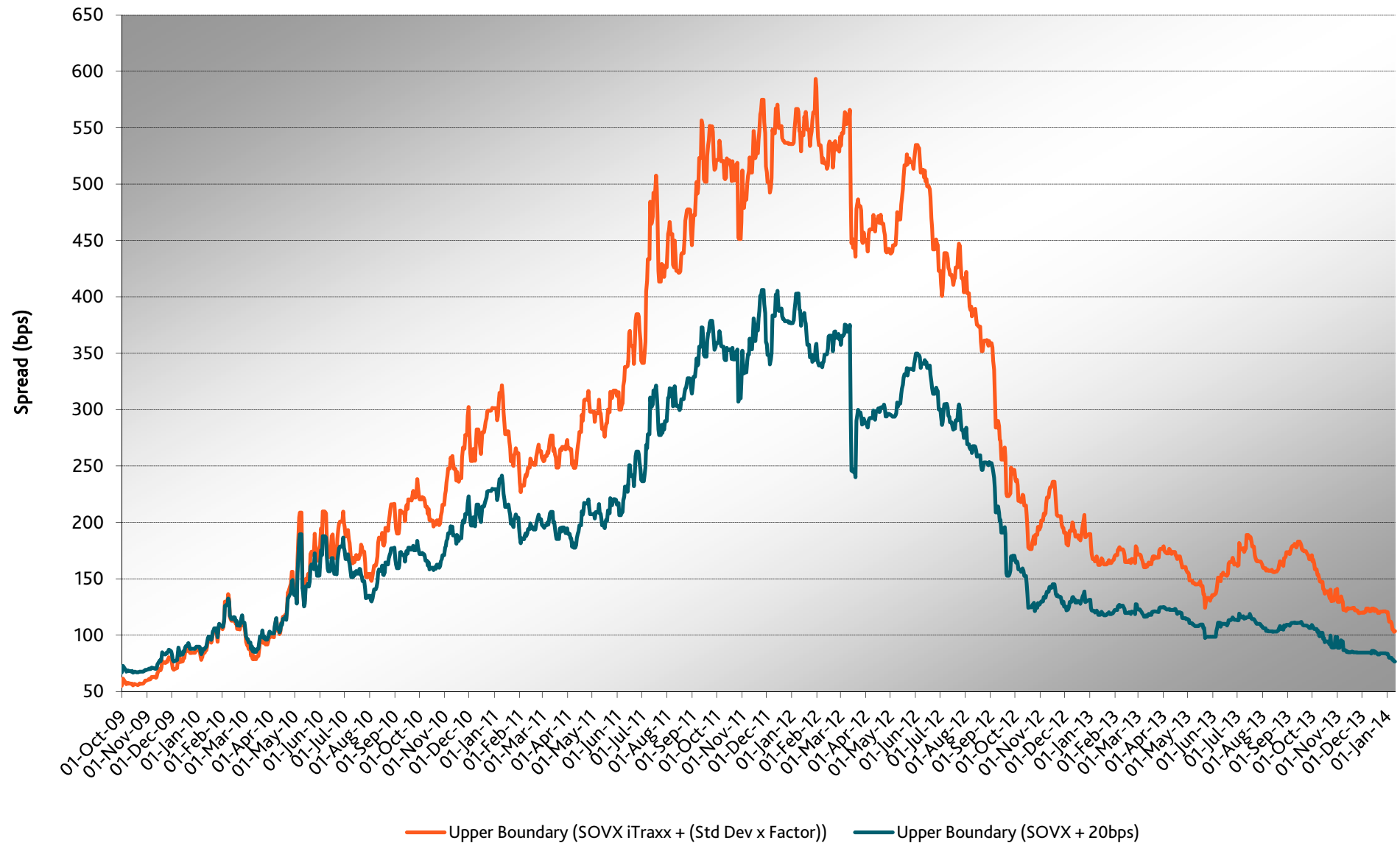
## CAPITA

## Asset Services









**WYRE FOREST DISTRICT COUNCIL**

**Cabinet  
18<sup>th</sup> February 2004**

**Overview and Scrutiny Committee  
6<sup>th</sup> February 2014**

**Recommendations from Treasury Management Review Panel:  
Treasury Management Strategy 2014-15**

**Overview and Scrutiny Committee to propose to Cabinet that it recommends to Council to:**

- **Approve the restated Prudential Indicators and Limits for the financial years 2014/15 to 2016/17 included in Appendix 3 to the report to the Overview and Scrutiny Committee.**
- **Approve the updated Treasury Management and Investment Policy and Strategy Statements for the period 1st April 2014 to 31st March 2015 (the associated Prudential Indicators are included in Appendix 3 to the report to the Overview and Scrutiny Committee and the detailed criteria is included in Section 10 and Appendix 5).**
- **Approve the Minimum Revenue Provision (MRP) Statement that sets out the Council's policy on MRP included in Appendix 1 to the report to the Overview and Scrutiny Committee.**
- **Approve the Authorised Limit Prudential Indicator included in Appendix 3 to the report to the Overview and Scrutiny Committee.**

**Background papers:**

Report to the Overview and Scrutiny Committee 6<sup>th</sup> February 2014

<http://www.wyreforest.gov.uk/council/meetings/com193.htm#mt7330>

**WYRE FOREST DISTRICT COUNCIL****CABINET**  
**18<sup>TH</sup> FEBRUARY 2014****Budget Monitoring Third Quarter 2013/14**

<b>OPEN</b>	
<b>SUSTAINABLE COMMUNITY STRATEGY THEME:</b>	All
<b>CORPORATE PRIORITY:</b>	All
<b>CABINET MEMBER:</b>	Councillor N J Desmond
<b>RESPONSIBLE OFFICER:</b>	Chief Financial Officer
<b>CONTACT OFFICER:</b>	Tracey Southall Ext. 2100 <a href="mailto:tracey.southall@wyreforestdc.gov.uk">tracey.southall@wyreforestdc.gov.uk</a> Kath Pearsall Ext 2165 <a href="mailto:kathryn.pearsall@wyreforestdc.gov.uk">kathryn.pearsall@wyreforestdc.gov.uk</a>
<b>APPENDICES:</b>	Appendix 1 - Wyre Forest District Council General Fund Total Requirements - District Council Purposes Appendix 2 - Budgetary Control Reports - Revenue Appendix 3 - Capital Programme 2013/14 Appendix 4 - Cabinet Proposal Progress Report Appendix 5 - Budget Risk Matrix  <i>The appendices to this report have been circulated electronically and a public inspection copy is available on request. (See front cover for details.)</i>

**1. PURPOSE OF REPORT**

- 1.1 To monitor the Revenue Budget and Capital Programme in accordance with the Local Government Act 2003.
- 1.2 To inform members of the Housing Benefit Overpayment debt position as a 31<sup>st</sup> December 2013.
- 1.3 To inform members of the Sundry/Property debt position as at 31<sup>st</sup> December 2013.

**2. RECOMMENDATIONS**

The Cabinet is asked to **DECIDE:-**

- 2.1 That the projected budget variations and comments outlined within this report and appendices 2 to 5 be noted.

### 3. **KEY ISSUES - BUDGET MONITORING Third QUARTER 2013/14**

3.1 **The projected outturn at 31<sup>st</sup> March 2014 is an under spend of £149,620.** The details are in **Appendix 2** and the main variances are:

- £69,220 favourable – Environmental Maintenance - reduction in manpower and repair and maintenance costs.
- £30,000 favourable – Deferral of the Leisure Centres plant replacement scheme.
- £20,000 favourable - Additional sale of cemetery plots.
- £19,400 favourable - Recent increase in planning applications.
- £15,000 favourable - Industrial Estates and Other Property, comprised of reduction in repairs and maintenance expenditure.
- £10,000 favourable – Additional interest received on investments.
- £6,000 favourable - Grant income from the Police Crime and Commissioners and County Election Claims.
- £20,000 adverse - Cost pressure on Highway Verges.

### 3.2 **Net Expenditure**

3.2.1 The table below details the current forecast outturn position against Revised Budget, and the income which funds the total net revenue expenditure. The original budget is included for reference – showing how the savings on the original budget have been incorporated within the revised budget, and the total extent of the improvement since the 1<sup>st</sup> April 2013.

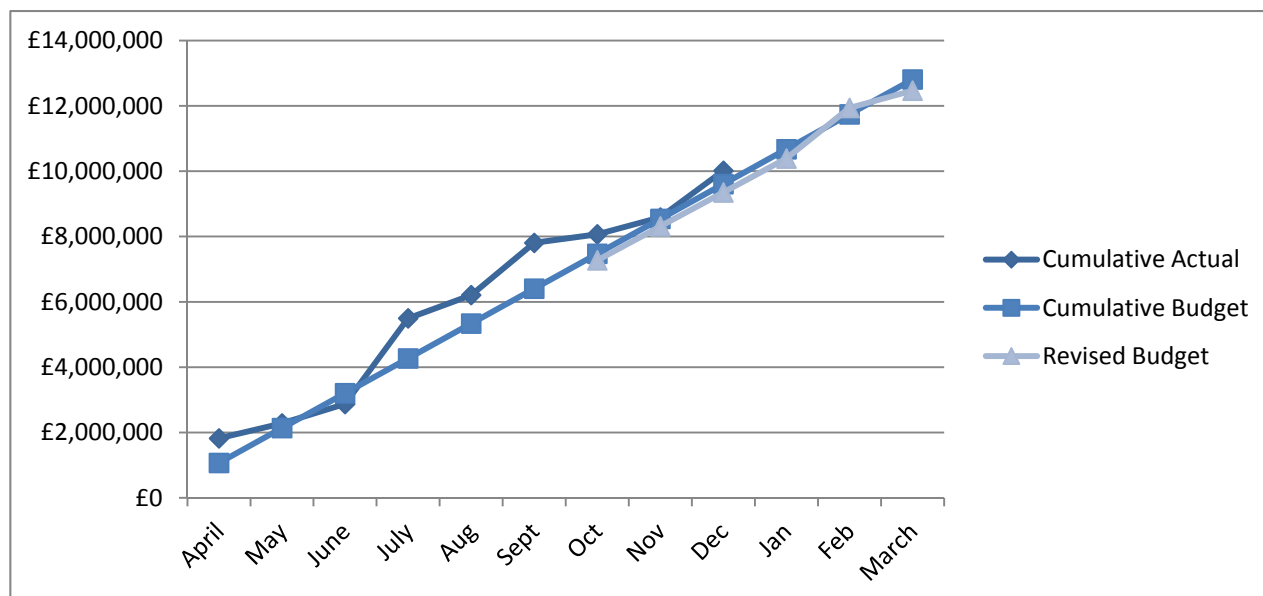
3.2.2 The level of Net Expenditure represents the level of resource employed by the Council in order that it may undertake its' statutory and discretionary service. This is because the Council's commercial activity should be undertaken only if the charges made cover the costs of the service provided, or beyond that, make a contribution to the Council's overheads. At the financial year end, the overall final position is forecast to be:

#### **Summary of main variances to budget**

	<b>Original Budget</b>	<b>Revised Budget</b>	<b>YTD Dec 2013 (including commitments)</b>	<b>Predicted Outturn</b>	<b>Variance to Original Budget</b>	<b>Variance to Revised Budget</b>
<b>Negative Variance</b>						
Parks and Green Spaces	£911,210	£952,670	£750,380	£972,670	£61,460	£20,000
<b>Positive Variance</b>						
Environ. Maintenance	£717,610	£736,870	£403,060	£667,650	£49,960CR	£69,220CR
Sports/ Physical Recreation	£1,574,340	£1,538,540	£1,248,730	£1,508,540	£65,800CR	£30,000CR
Cemeteries	£165,090	£156,830	£100,290	£136,830	£28,260CR	£20,000CR
Planning Policy	£459,690	£363,960	£248,340	£344,560	£115,130CR	£19,400CR
Industrial Estates	£152,700CR	£187,460CR	£219,380CR	£202,460CR	£49,760CR	£15,000CR
Capital Account	£1,265,370CR	£1,628,220CR	£1,496,170CR	£1,638,220CR	£372,850CR	£10,000CR
Elections	£207,880	£181,590	£101,680	£175,590	£32,290CR	£6,000CR

The profile of net expenditure varies against budget, not only because of the fluctuation in income, but also to reflect the seasonal variations in activity and the way that payments are made to, and received from, other government organisations.

**Net Revenue Expenditure profile (including commitments) during 2013-14 compared against budget**



The expenditure includes commitments to the value of £1.182million (11.0% of annual budget).

### 3.3 **External Income**

3.3.1 External Income is a very important element within the finances of the Council, it affects the level of resources the Council can fund and makes an important contribution to a balanced budget.

The level of external income predicted for 2013/14 is £4.962m against a 2012/13 actual performance of £4.848m.

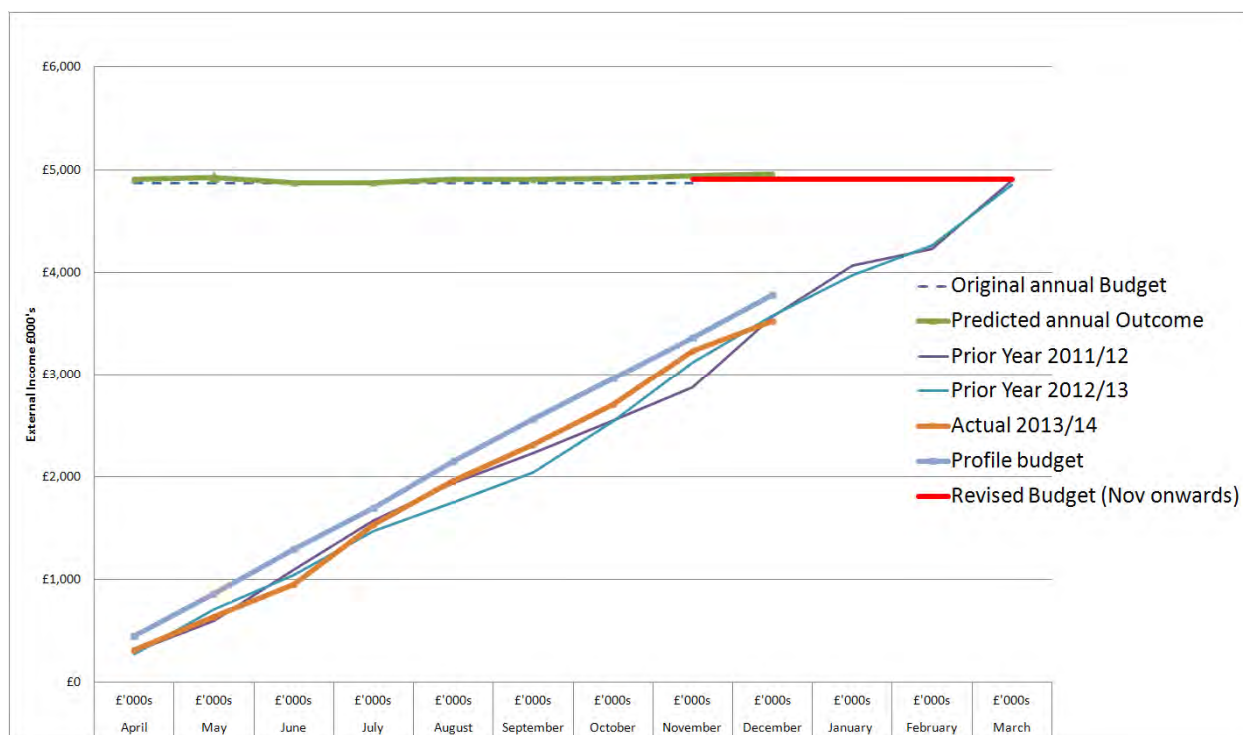
### 3.3.2 **Summary of income performance against budget throughout the year 2013/14** (Note all figures are cumulative)

	April	May	June	July	August	September	October	November	December	January	February	March
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Original annual Budget	£4,865	£4,865	£4,865	£4,865	£4,865	£4,865	£4,865	£4,865				
Revised Budget (Nov onwards)								£4,908	£4,908	£4,908	£4,908	£4,908
Predicted annual Outcome	£4,904	£4,927	£4,872	£4,876	£4,905	£4,908	£4,917	£4,940	£4,962			
Prior Year 2011/12	£305	£603	£1,095	£1,574	£1,938	£2,233	£2,551	£2,870	£3,574	£4,068	£4,227	£4,894
Prior Year 2012/13	£279	£713	£1,043	£1,469	£1,757	£2,047	£2,537	£3,117	£3,583	£3,974	£4,263	£4,848
Actual 2013/14	£314	£636	£953	£1,535	£1,963	£2,317	£2,709	£3,233	£3,522			
Profile budget	£448	£861	£1,296	£1,700	£2,149	£2,563	£2,960	£3,361	£3,783			

Income in the month of December was far less than in prior months with just under £290,000 invoiced in the month; however overall predicted income continues to exceed the revised budget position. The one significant category that is lagging behind schedule is the recharges associated with Shared Services which by its very nature tend to be charged in arrears and is therefore acceptable.

### 3.3.3 Projection of External Income against Revised Budget

The following graph shows the projection of external income against the original budget and prior years. It illustrates that external income is increasing.



### 3.3.4 Summary of Income Performance by Category

The following table shows income broken down into categories. It also shows:

- The actual income received to date and the percentage against Revised Budget
- The percentage income projected for the financial year as of December 2013 against the Revised Budget.

The income target for December is 75% and therefore actual income is 3.2% below target position.

<b>Category</b> All figures in £'000s	<b>Revised Budget 2013/14 £000's</b>	<b>Projection as at Dec 2013 £000's</b>	<b>Actual Dec YTD £000's</b>	<b>% achieved of Revised Budget</b>	<b>% achieved of projection</b>
<b>Fees and Charges</b>	<b>£3,039</b>	<b>£3,066</b>	<b>£2,375</b>	<b>78.1%</b>	<b>77.5%</b>
<b>Grant or Subsidies</b>	<b>£180</b>	<b>£198</b>	<b>£159</b>	<b>88.5%</b>	<b>80.3%</b>
<b>Interest</b>	<b>£163</b>	<b>£173</b>	<b>£77</b>	<b>47.0%</b>	<b>44.3%</b>
<b>Other</b>	<b>£139</b>	<b>£139</b>	<b>£109</b>	<b>78.3%</b>	<b>78.3%</b>
<b>Rental Income</b>	<b>£586</b>	<b>£586</b>	<b>£424</b>	<b>72.4%</b>	<b>72.4%</b>
<b>Shared Services Income</b>	<b>£801</b>	<b>£801</b>	<b>£378</b>	<b>47.2%</b>	<b>47.2%</b>
<b>Total</b>	<b>£4,908</b>	<b>£4,962</b>	<b>£3,522</b>	<b>71.8%</b>	<b>71.0%</b>

### 3.3.5 Full Year Income Generation Projection Return 2013/14 – Month 9

Some Sections predict external income in excess of revised budget						
Description	2013/14 Budget	2013/14 Profiled Budget	2013/14 Actual To Date	Projection to Year End	Variance Projection Less Budget	Comments
Planning Application Fees	£325,600	£244,233	£305,169	£345,000	£19,400	Several large fee applications received
Fees and Charges - Cemetery	£22,050	£15,675	£32,784	£35,050	£13,000	Higher than expected income - sale of plots and re-use
County Council Payments - Waste	£60,000	£45,006	£71,033	£71,040	£11,040	Recycling credit
Internal (& other) Interest Received	£60,000	£45,006	£281	£70,000	£10,000	
Some Sections predicted a shortfall in external income						
Building Control Full Planning Application	£80,000	£65,208	£48,431	£60,000	£20,000	Reduction in full plans income - will have no effect on Final Outturn as this is a Share Service and is ring fenced
POLLUTION CONTROL FEES	£14,120	£11,481	£11,545	£12,000	£2,120	
			£469,244	£593,090	£31,320	

The table above shows the position for external income as at 31<sup>st</sup> December 2013 and predicts the annual income to exceed the annual budget by £31,320.

### 3.4 Capital Programme

The updated Capital Programme and Vehicle, Equipment and Systems Renewal Schedule for 2013/14, including slippage from 2012/13 are enclosed as **Appendix 3**.

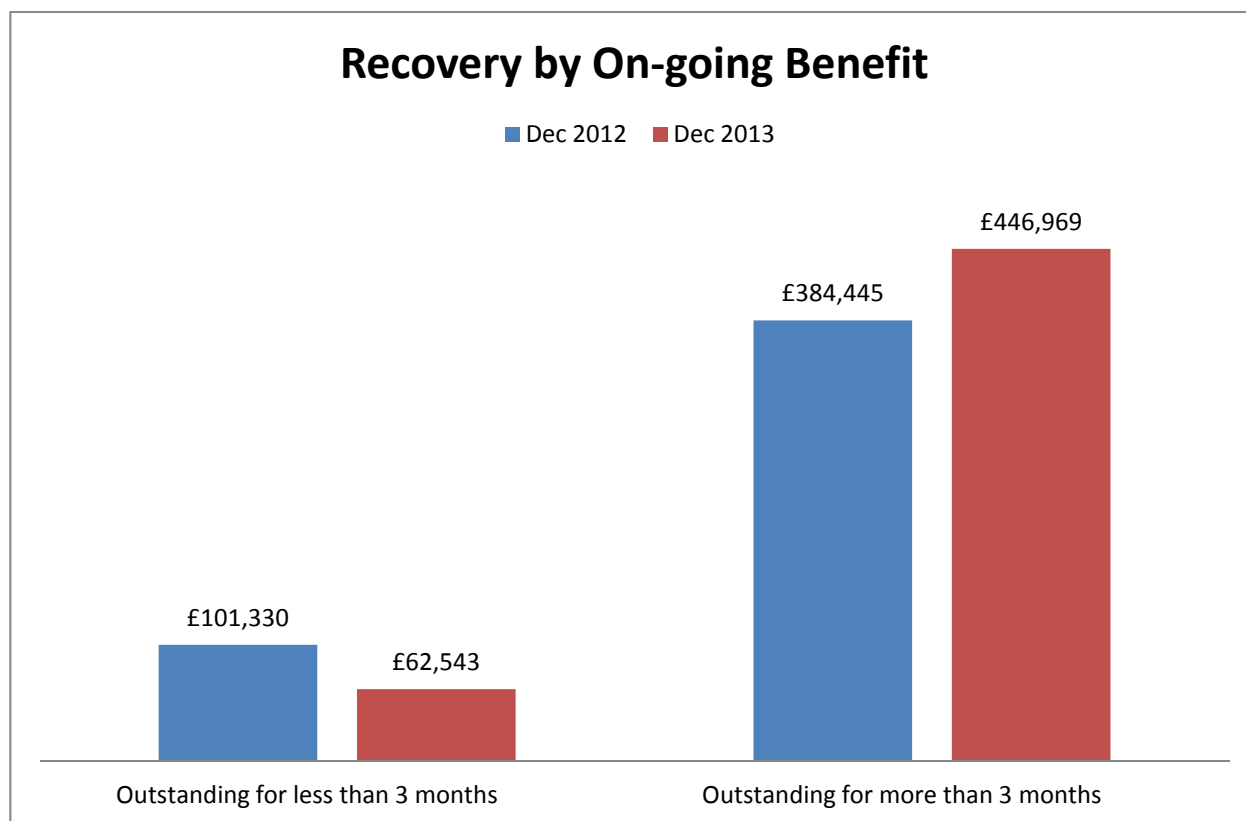
### 3.5 Cabinet Proposals

A Progress Report of Cabinet Proposals approved at Council on the 27<sup>th</sup> February for 2013/14 is shown in **Appendix 4**. Progress on most of these is satisfactory, although it should be noted that most of the Proposals for 2013/14 are in fact growth items. The most significant revenue savings proposals are £25,000 for Procurement which has already been achieved and the Wyre Forest Forward efficiency saving of £50,000 which is progressing well across all Directorates. Estimated saving of £290,000 have been achieved on capital expenditure as a result of the review of fleet replacement strategy. We will continue to monitor this and report the updated position at Quarter 4.

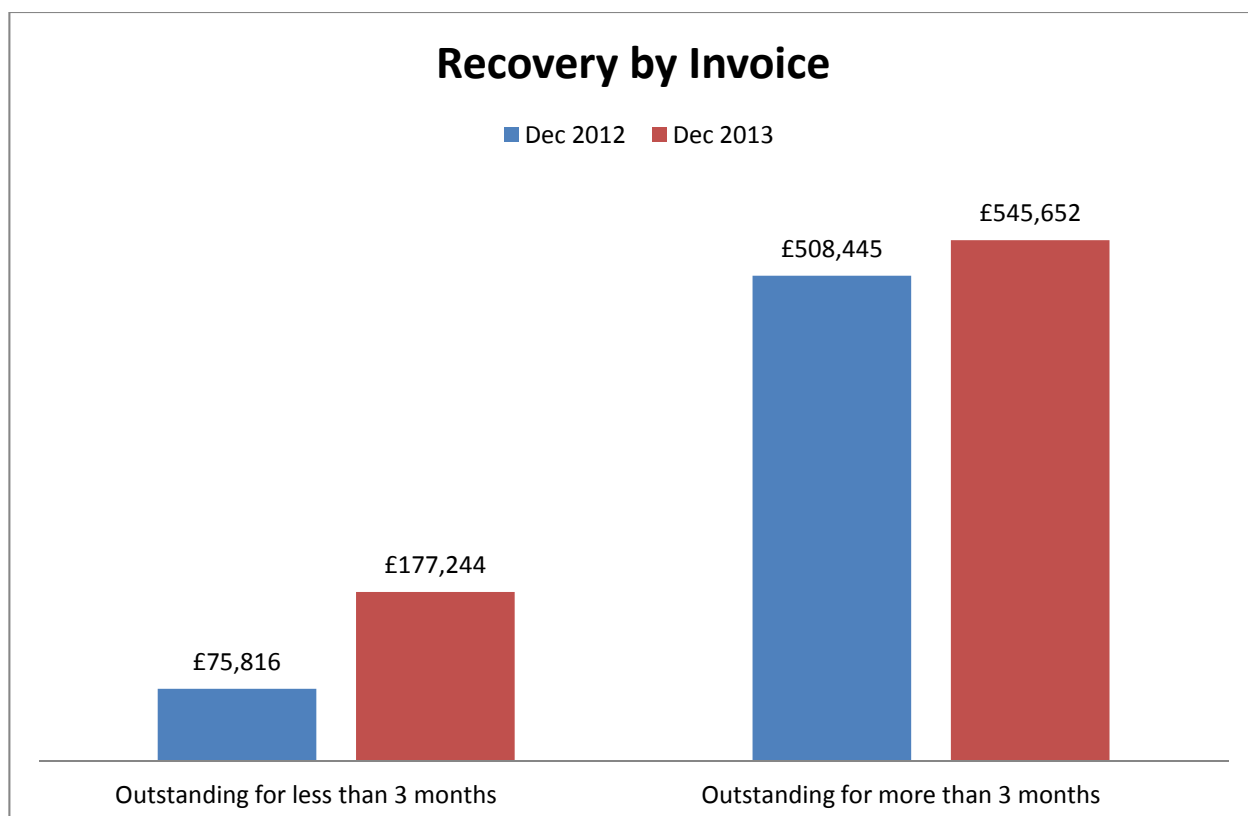
### 3.6 Income and Outstanding Debt

The position relating to Housing Benefit Overpayment is shown in the next two graphs, split to show those debts being recovered from on-going benefit and those debts being recovered via an invoice:

**Housing Benefit Overpayment outstanding as at December 2012 and December 2013**



*(E.G. In December 2012 the total value of debts outstanding for less than three months, being collected from on-going benefit was £101,330, compared to December 2013 where £62,543 was outstanding for less than three months)*



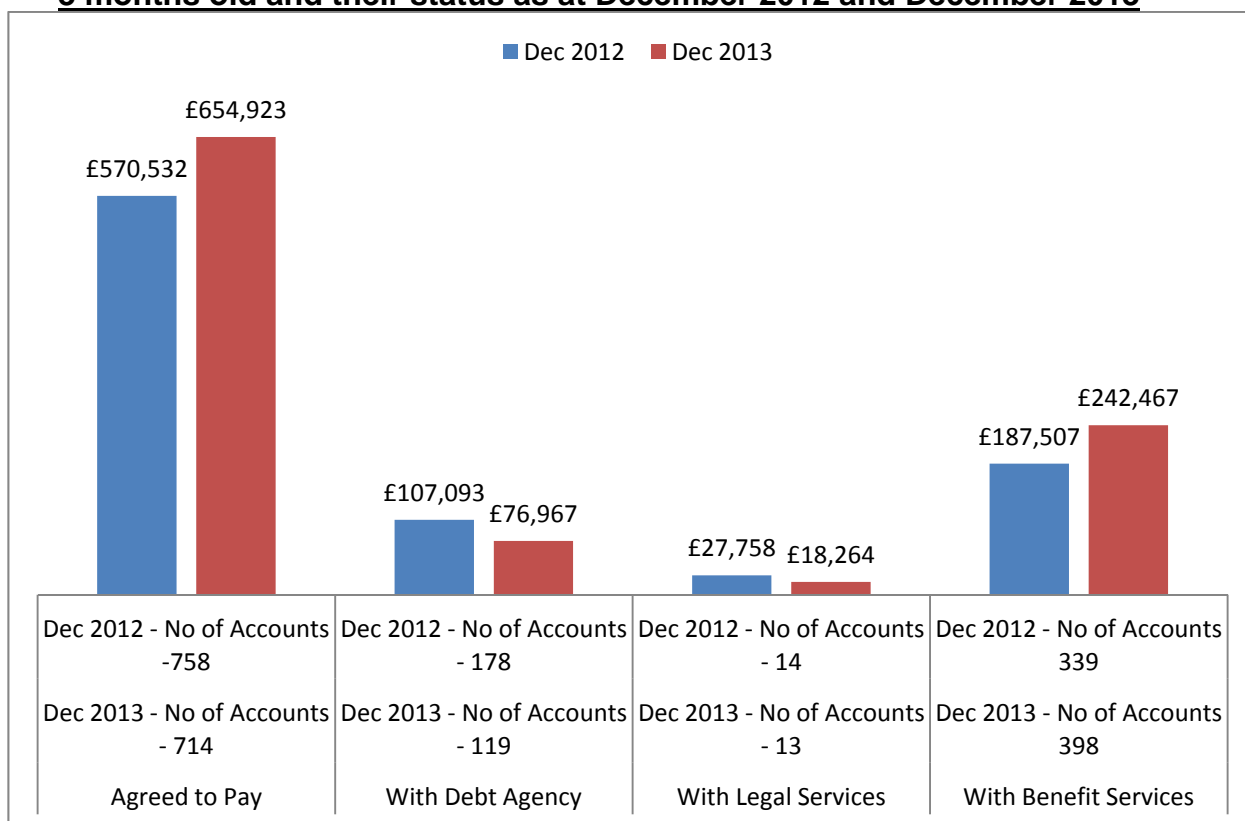
## Agenda Item No. 8.3

*(E.G. In December 2012 the total value of debts outstanding for less than three months, being collected by an invoice was £75,816, compared to December 2013 where £177,244 was outstanding for less than three months)*

The number of debts outstanding has increased in 2013 due to the completion of more fraud investigations than in 2012/13.

Debts over three months old have agreements in place to pay, have been referred to a Debt Collection Agency or the Council's Legal Services, or remain with the Benefit Service to pursue. The number of accounts, the value outstanding and how this will be collected is shown in the graph below:

### **Housing Benefit Overpayment outstanding and the number of Accounts over 3 months old and their status as at December 2012 and December 2013**

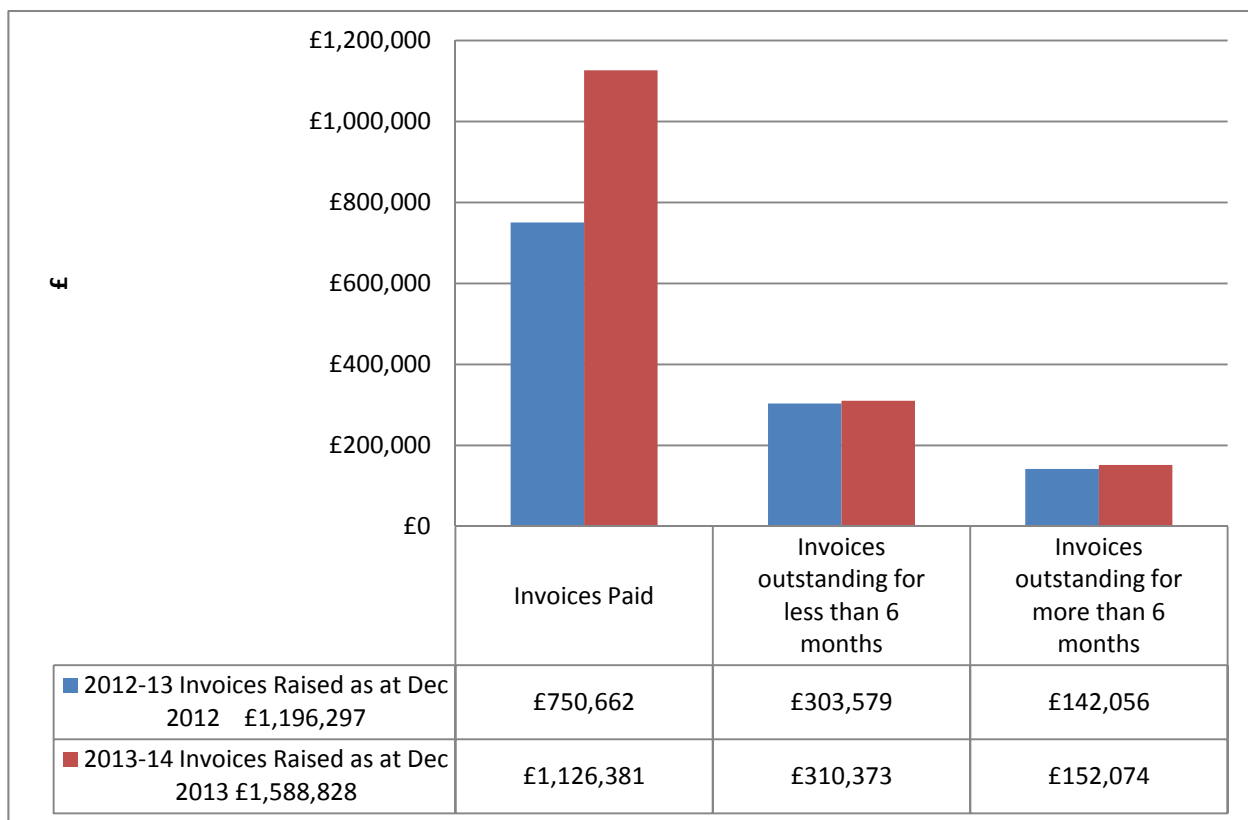


*(E.G. In December 2012, 758 claimants with a total debt of £570,532 had agreed to pay compared to December 2013, where 714 claimants with a total debt of £654,923 had agreed to pay)*

3.7 The position relating to Sundry/Property Customer Invoices are as follows:  
Sundry Customer Invoices:

- The Council raised £1.6 million in Sundry customer invoices during the period to 31<sup>st</sup> December 2013 (£1.2 million to 31<sup>st</sup> December 2012)

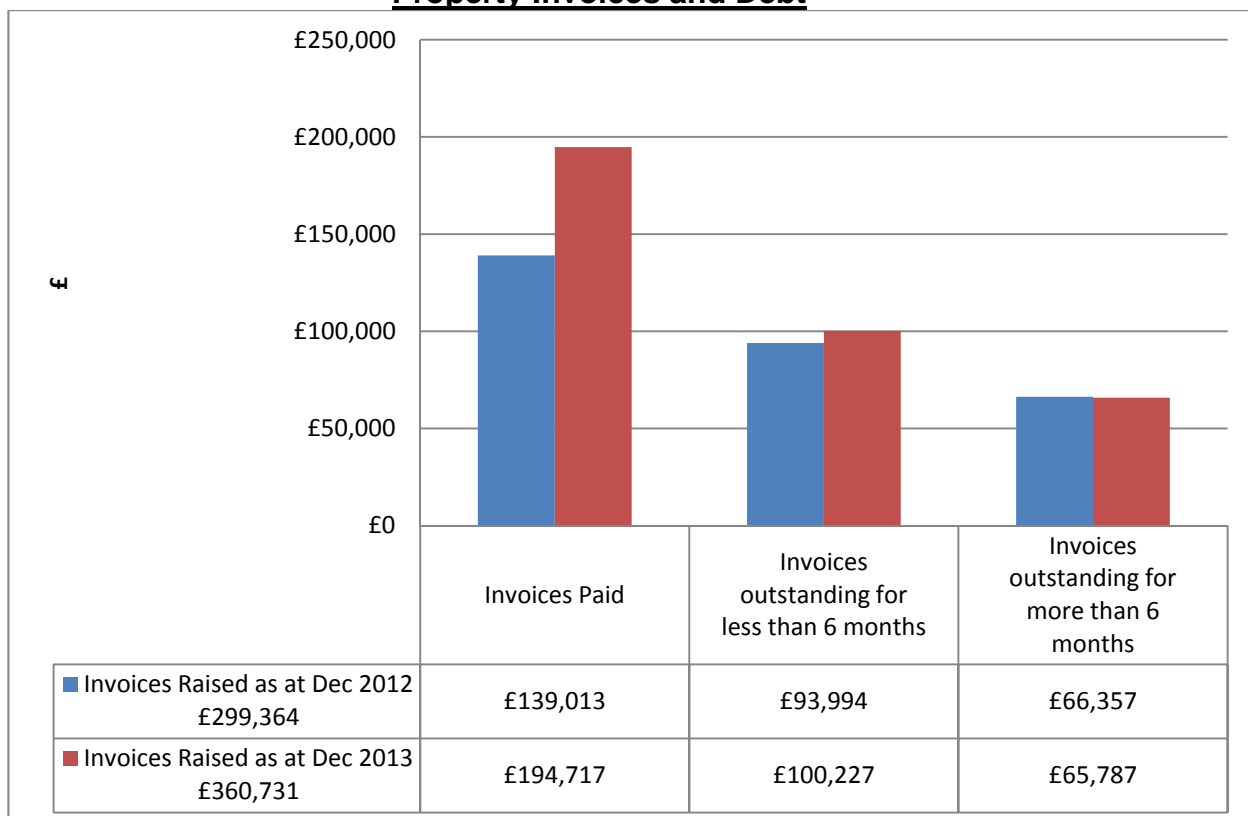
### Sundry Invoices and Debt



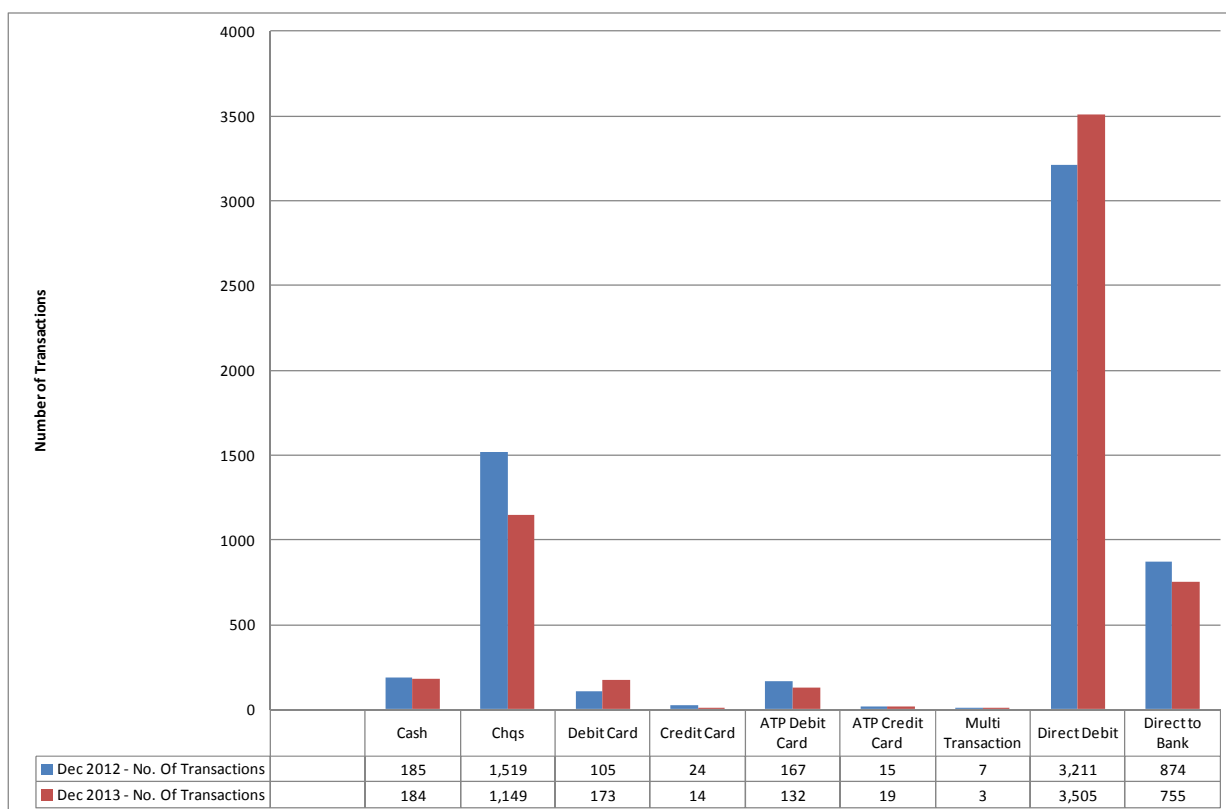
#### Property Customer Invoices

- The Council raised £0.361 million in Property customer invoices during the period to 31<sup>st</sup> December 2013 (£0.299 to December 2012)

### Property Invoices and Debt



3.8 **Comparison of payment methods for customer invoices raised as at December 2012 and December 2013**



3.9 The write off for Sundry and Property debt to December 2013 was £3,257 (£2,468 Pollution Control, £430 Licensing Fees, £359 Other). Write off of debt to December 2012 was £492.

3.10 Early in October 2008, the Icelandic banks Landsbanki, Kaupthing Singer & Friedlander and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. In Iceland, Winding-Up Boards were appointed to oversee the run-off of banks, including Landsbanki. This Council had £9m deposited across three of these institutions.

On 30<sup>th</sup> January 2014 the Council sold its legal claim to recover the investment it had deposited with the now insolvent estate of Landsbanki. It was sold to Deutsche Bank through an international competitive auction process. Lawyers Bevan Brittan acted on behalf of the Council along with the other local authorities and public bodies who were involved in the Icelandic bank collapse. The large majority of them also chose to sell their claim. The Council has recovered almost 97% of the £3 million that it had deposited with defunct Landsbanki Icelandic bank.

The decision to sell, followed expert legal, financial advice from external companies and the Council's accountancy team. The sale removes the uncertainty and risks about the timing and amount of future payments. No one could predict how long the bank will be in administration and what currencies future payments would be made in. If the Council had not sold its claim, there would have been costs associated with the on-going participation in the administration and the foreign exchange rate would also be a risk on the amount the Council received.

The table below details the latest position regarding the Council's remaining two Icelandic investments. An eleventh dividend of 2.5p in £, was paid by KSF on 18<sup>th</sup> December 2013, reducing the principal investment to £925,000. Fourteen dividends have been received to date from Heritable Bank reducing the principal investment to £60,157.

**Icelandic Investments – latest position**

<b><u>Bank</u></b>	<b><u>Original Investment</u> £</b>	<b><u>Interest Claimed</u> £</b>	<b><u>Total Claim</u> £</b>	<b><u>Dividends Received (including interest)</u> £</b>	<b><u>Balance Outstanding including Interest Due</u> £</b>	<b><u>Balance Outstanding Principal Only</u> £</b>
<u>Kaupthing Singer &amp; Friedlander</u>	<u>5,000,000</u>	<u>156,378</u>	<u>5,156,378</u>	<u>4,202,448</u>	<u>953,930</u>	<u>925,000</u>
<u>Heritable Bank</u>	<u>1,000,000</u>	<u>31,110</u>	<u>1,031,110</u>	<u>969,422</u>	<u>61,688</u>	<u>60,157</u>
<b><u>Total £</u></b>	<b><u>6,000,000</u></b>	<b><u>187,488</u></b>	<b><u>6,187,488</u></b>	<b><u>5,171,870</u></b>	<b><u>1,015,618</u></b>	<b><u>985,157</u></b>

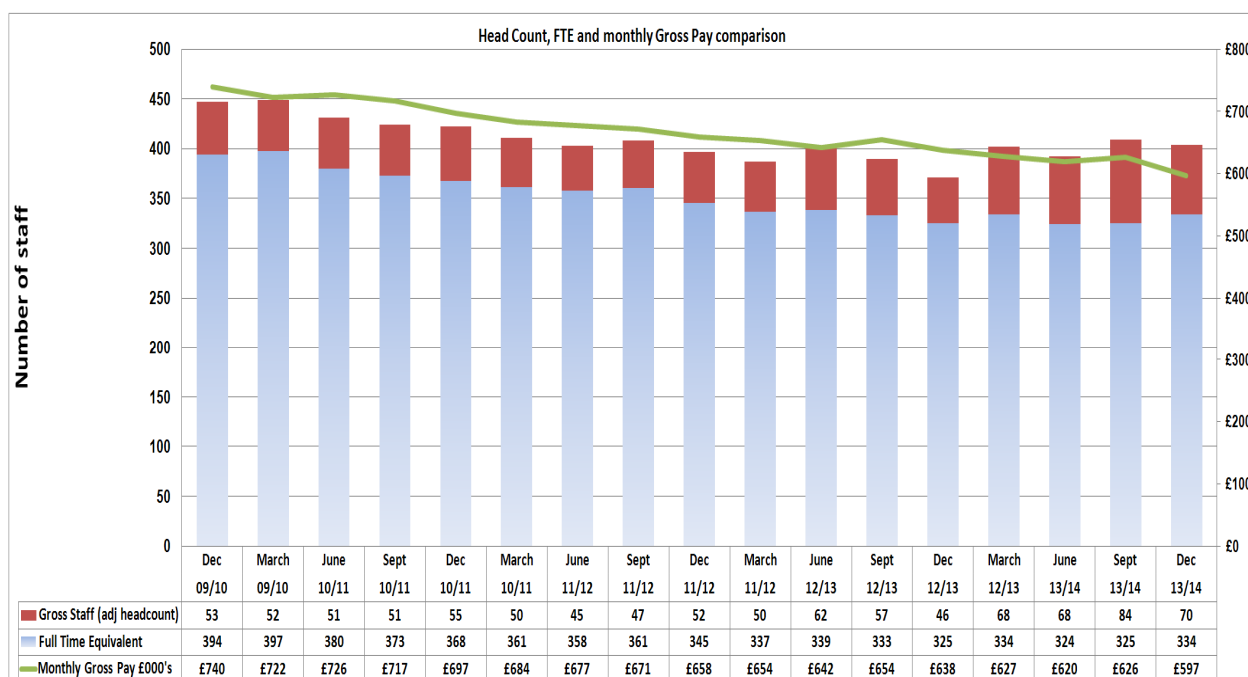
**3.11 Pensions Update**

The Triennial evaluation for 2013 of the Local Government Pension Scheme is particularly poor for this Council as a result of historic decisions. From 2014-15 the basis for making contributions to the fund will change to a cash value rather than the current basis of a percentage of actual pay, since pay has inevitably been reducing, so have the contributions, increasing the funding gap. There is also a requirement for an annual stepped increase in contributions agreed with the actuary as part of the budget process.

**4. Scorecard Data**

- 4.1 Not all management data needs to be understood in financial terms. The following report gives an important overview of key operational information for staffing. This non financial insight allows an understanding of the main cost drivers that affect the total costs of the Council.

**Summary of Quarterly Headcount and Full time Equivalent (FTE) and Gross pay monthly costs for the last 4 years to December 2013**



Payroll costs comprise 85% of the total operating costs incurred by the Council. Consequently any significant change in the Council's cost profile must include changes to the headcount (total number of employees) and more importantly a change in the Full Time Equivalent (FTE) (restating the headcount by taking into account the portion worked by part time staff). Any reduction in FTE should translate into payroll cost savings – to verify this, the green line working off the right hand axis confirms that costs have reduced in line with successive reductions in FTE over the past 4 years. In order that a direct relationship between FTE and payroll costs can be established, gross pay has been used, taking out all costs that can cause fluctuations, such as redundancy, National Insurance and pension costs.

The highlights over the past 4 years – FTE reduced from 394 to 334. Monthly gross pay costs reduced from £740K to £597K.

## **5. FINANCIAL IMPLICATIONS - BUDGET MONITORING 3rd QUARTER 2013/2014**

- 5.1 A copy of the Council's Revenue Budget is enclosed as **Appendix 1** for Members' information.
- 5.2 The Provisional Local Government Settlement was announced following the Chancellor's Autumn Statement, on 18th December 2013. The Settlement was for 2014-15 only, with illustrative figures for 2015-16. As predicted, the austerity measures look set to continue until 2019, although the outlook for local government, particularly following the decisions announced as part of the Autumn Statement is less bleak than previously thought.

- 5.3 Housing Benefits overpayments – the council needs to monitor performance as it receives from the Department of Work and Pensions benefit subsidy on those payments which are identified as overpayments. The rate of subsidy varies dependent on the classification of the overpayment. In addition should the Council recover the full or any part of an overpayment then those recovered monies can be retained by the Council.
- 5.4 Sundry/Property Debt – The income generated through the raising of invoices is a very important part of the Council's finances. We will continue to monitor Sundry and Property debt to ensure that invoices are paid in a timely manner and that processes are in place to recover outstanding income.

**6. LEGAL AND POLICY IMPLICATIONS**

- 6.1 The Local Government Act 2003 (sections 25–29) placed additional duties on Local Authorities on how they set and prioritise budgets.
- 6.2 Section 28 places a statutory duty on an authority to review its budget from time to time during the year. If the Budget Monitoring Report shows that there has been deterioration in the Authority's financial position, the Authority must take such action as it concludes necessary. The Cabinet currently reviews the Budget on a quarterly basis.
- 6.3 Our External Auditor's Grant Thornton make an assessment based on the annual programme of external audit work. The focus is on ensuring there are proper arrangements in place for securing financial reliance and that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

**7. EQUALITY IMPACT ASSESSMENT**

- 7.1 This is a financial report and there is no requirement to undertake an Equality Impact Assessment.

**8. RISK MANAGEMENT**

- 8.1 The budget risk matrix in Appendix 5 is regularly reviewed and updated. Regular monitoring of expenditure and other financial information mitigates risk for the Council.

**9. CONCLUSIONS/ACTION**

- 9.1 The information contained within Appendices 2, 3, 4, and 5 provides Members with an overview of financial trends within the period to 31<sup>st</sup> December 2013

**10. CONSULTEES**

- 10.1 Corporate Leadership Team.
- 10.2 Cabinet.

**11. BACKGROUND PAPERS**

Cabinet 22<sup>nd</sup> October 2013 (*Development of the Medium Term Financial Strategy 2014/19*)

Strategic Review 18<sup>th</sup> November 2013 (*Proposals from Cabinet on Medium Term Financial Strategy 2014/19*)

Cabinet 19<sup>th</sup> November 2013 (*Development of the Medium Term Financial Strategy 2014/19*)

Council 27<sup>th</sup> November 2013 (*Recommendations from Cabinet – Medium Term Financial Strategy 2014-19*)

Cabinet 21<sup>st</sup> January 2014 (*Budget, Capital Programme and Council Tax Setting*)

Hyperlink to Committees:

[Committee Information - Wyre Forest District Council](#)

**WYRE FOREST DISTRICT COUNCIL****REVENUE BUDGET TOTAL REQUIREMENTS - DISTRICT COUNCIL PURPOSES**

SERVICE	2013/14		2014/15			2015/16			2016/17		
	Original Estimate £	Revised Estimate £	At Nov.13 Prices £	Inflation £	TOTAL £	At Nov.13 Prices £	Inflation £	TOTAL £	At Nov.13 Prices £	Inflation £	TOTAL £
CHIEF EXECUTIVE	5,383,470	5,761,990	6,028,940	83,390	6,112,330	5,912,960	169,610	6,082,570	6,139,750	272,700	6,412,450
COMMUNITY WELL-BEING AND ENVIRONMENT	6,368,170	6,427,690	6,181,660	115,610	6,297,270	6,170,600	226,580	6,397,180	5,365,890	278,000	5,643,890
ECONOMIC PROSPERITY AND PLACE	2,322,950	1,999,370	1,141,000	37,510	1,178,510	816,190	83,180	899,370	843,720	127,370	971,090
LESS: CAPITAL ACCOUNT	14,074,590	14,189,050	13,351,600	236,510	13,588,110	12,899,750	479,370	13,379,120	12,349,360	678,070	13,027,430
INTEREST RECEIVED	(1,131,050)	(1,465,290)	(1,060,520)	870	(1,059,650)	(693,850)	1,770	(692,080)	(317,790)	2,720	(315,070)
	(134,320)	(162,930)	(129,600)	0	(129,600)	(109,380)	0	(109,380)	(120,420)	0	(120,420)
<b>TOTAL NET EXPENDITURE ON SERVICES</b>	<b>12,809,220</b>	<b>12,560,830</b>	<b>12,161,480</b>	<b>237,380</b>	<b>12,398,860</b>	<b>12,096,520</b>	<b>481,140</b>	<b>12,577,660</b>	<b>11,911,150</b>	<b>680,790</b>	<b>12,591,940</b>
LESS: CONTRIBUTION (FROM) TO RESERVES	(524,300)	(275,910)			(657,970)			(1,569,040)			(1,965,050)
<b>NET BUDGET REQUIREMENT</b>	<b>12,284,920</b>	<b>12,284,920</b>			<b>11,740,890</b>			<b>11,008,620</b>			<b>10,626,890</b>
LESS: GOVERNMENT SUPPORT GRANTS	(6,179,120)	(6,179,120)			(5,336,610)			(4,499,850)			(4,152,000)
HOMELESSNESS PREVENTION GRANT	(108,650)	(108,650)	(6,287,770)		(107,030)	(5,344,605)		(106,990)	(4,542,910)		0
COMMUNITY RIGHT TO BID/CHALLENGE	(16,400)	(16,400)			(16,400)			0			0
COLLECTION FUND SURPLUS	0	0			(50,000)			(50,000)			0
COUNCIL TAX TRANSITIONAL GRANT	(28,630)	(28,630)			0			0			0
<b>GENERAL EXPENSES -</b>											
COUNCIL TAX INCOME	5,952,120	5,952,120			6,230,850			6,351,780			6,474,890
<b>COUNCIL TAX LEVY</b>		<b>197.62</b>			<b>201.45</b>			<b>205.36</b>			<b>209.34</b>
<b>COUNCIL TAX BASE</b>		<b>30,119</b>			<b>30,930</b>			<b>30,930</b>			<b>30,930</b>

**BUDGETARY CONTROL REPORT**  
**MAJOR REVENUE VARIATIONS QUARTER THREE (TO 31st DECEMBER 2013)**

Total Revised Budget 2013/2014	12,560,830
Additional Expenditure/(Projected Saving) on Revised Budget	<b>(149,620)</b>
Total Quarter Three Projection to Year End 2013/2014	<b>12,411,210</b>

<b><u>Description of Estimated Major Variances</u></b>	<b>Extra Costs/ Reduced Income £</b>	<b>Savings/ Additional Income £</b>
<b><u>Chief Executive</u></b>		
1. Elections - Grant income from the Police Crime and Commissioners and County Elections		(6,000)
<b><u>Community Well Being and Environment</u></b>		
1. Environmental Maintenance - reduction in repairs and maintenance and manpower costs		(69,220)
2. Leisure Centres - deferral of plant replacement scheme		(30,000)
3. Cemeteries - additional sale of plots		(20,000)
4. Parks and Green Spaces - cost pressures on Highway verges	20,000	
<b><u>Economic Prosperity and Place</u></b>		
1. Planning Policy - increase in planning applications		(19,400)
2. Industrial Estates & Other Property - reduced repair and maintenance costs		(15,000)
<b><u>Capital Account</u></b>		
1. External Interest - beneficial rates achieved on notice accounts and Capital Programme slippage resulting in additional investment interest income		(10,000)
	20,000	(169,620)
<b>Increase/(Decrease) on Revised Budget (based on Quarter Three 2013/2014 Projection) to Year End made up as follows:</b>		<b>£ (149,620)</b>

Q3 Budget Monitoring 2013/14 (to December 2013)  
Capital Programme 2013/14

APPENDIX 3

Capital project description	2013/14 Budget (Full Year)	YTD Actual Expenditure (Net Income)	Commitment	Year To Date Expenditure Including Commitments	Projected Total 2013/14 Expenditure	Slippage to 2014/15	Explanation
<b><u>CHIEF EXECUTIVE</u></b>							
New Headquarters - Office Accommodation	664,820	41,929	147,200	189,129	664,820	0	Contractor account still to be finalised due to outstanding issues.
Contribution towards replacement of Civic Facilities in Stourport-on-Severn	450,000	0	0	0	450,000	0	Community Asset Transfer anticipated in Q4.
ICT Strategy	70,000	49,154	50,443	99,597	91,300	0	Cash Income System (£42,140) anticipated to complete by the end of the financial year.
Financial Management System Replacement	15,000	0	0	0	10,000	5,000	Contract let for Financial Management System upgrade for £8,700 and small contingency allowed. Remaining £5,000 to slip into 2014/15.
Local Authority Mortgage Scheme (LAMS)	1,000,000	0	0	0	1,000,000	0	The scheme launch has been deferred due to the diminished differential between the broker/commercial rate Lloyds Bank are currently able to offer and the costs of borrowing currently available.
<b>Total CHIEF EXECUTIVE</b>	<b>2,199,820</b>	<b>91,084</b>	<b>197,643</b>	<b>288,726</b>	<b>2,216,120</b>	<b>5,000</b>	
<b><u>COMMUNITY WELL-BEING &amp; ENVIRONMENT</u></b>							
Parking Facilities - Payment under Contractual Agreement	59,280	0	0	0	0	59,280	Meters for car parks. To slip into 2014/15.
Parking Facilities - Improvement to Car Parks	19,860	0	0	0	0	19,860	Surface repairs. Slip into 2014/15.
Liveability Scheme: Brinton Park	210	0	0	0		210	HLF Bid currently being prepared for Brinton Park Capital Scheme. This Liveability Scheme balance to be used in conjunction with any successful award.
St Mary's Churchyard Boundary Wall	2,840	0	0	0	2,840	0	Anticipated to complete Q4, possibly to slip to 2014/15.
Vehicles & Equipment	349,000	122,450	0	122,450	291,450	45,000	See separate Vehicle, Equipment and Systems Renewal Schedule. Expected to be some small slippage into 2014/15.
Stourport Sports Village	417,110	398,936	0	398,936	398,940	18,170	Retention of Hockey Project and Cycle Track Lighting is due to be paid in April 2014 and June/July 2014. Balance of scheme to slip to 2014/15.
Waste Strategy - Green Waste Containers	12,960	0	0	0	12,960	0	Expected to complete by year end.
Future Leisure Provision	1,516,530	34,995	78,759	113,754	300,000	1,216,530	Purchase of site in 2014/15 but deposit (refundable) in Q4.
Paddling Pools - Strategic Review	299,700	219,811	9,696	229,507	229,510	0	Scheme complete. Awaiting final invoices. Balance no longer required.
BMX Track at White Wickets	13,900	13,899	0	13,899	13,900	0	Scheme complete.
<b>Total COMMUNITY WELL-BEING &amp; ENVIRONMENT</b>	<b>2,691,390</b>	<b>790,092</b>	<b>88,455</b>	<b>878,547</b>	<b>1,249,600</b>	<b>1,359,050</b>	

Q3 Budget Monitoring 2013/14 (to December 2013)  
Capital Programme 2013/14

APPENDIX 3

Capital project description	2013/14 Budget (Full Year)	YTD Actual Expenditure (Net Income)	Commitment	Year To Date Expenditure Including Commitments	Projected Total 2013/14 Expenditure	Slippage to 2014/15	Explanation
<b><u>ECONOMIC PROSPERITY &amp; PLACE</u></b>							
Disabled Facilities Grants	682,960	341,149	0	341,149	682,960	0	DFG spend may have some slight variation. Unpredictable given large amount of works on site so some will inevitably not complete on time. Any underspend needs to be slipped to 14/15 for this mandatory function.
Discretionary Grant Payments	80,000	5,839	0	5,839	40,000	40,000	We anticipate having nearly full spend, but will benefit from repayments of these home repair loans of £30-40k. This is recycled into the same budget for future loans.
Regional Housing Initiatives	52,040	6,367	0	6,367	20,000	32,040	slower take up of loans grants due to national schemes not moving forward.
Wyre Insulation Scheme	15,000	0	0	0	0	15,000	Not able to tie into national schemes due to national delays and issues.
Adaptation Assistance	80,000	5,553	0	5,553	15,000	65,000	New scheme is needing time to bed in. Alternative to DFGs needs to be maintained given lack of budget for DFGs.
Affordable Housing Grants to Registered Social Landlords	65,000	0	0	0	65,000	0	Funding for 4 units at Chaddesley Corbett.
Planning Delivery Grant Capital Projects	26,240	0	0	0	0	26,240	Plans to be developed. Slip into 2014/15.
Flood Relief	22,500	7,500	0	7,500	7,500	15,000	Following investigations, working with land owners on schemes to reduce flood risk in Bewdley. Anticipate spend in 2014/15. This money came from Central Government specifically for flood assistance.
WETT Programme - Regulatory Services	58,000	0	0	0	58,000	0	Scheme being progressed. Anticipated to complete by end of financial year.
Regeneration and Economic Development	585,690	130,373	20,102	150,475	222,630	363,060	This is the State of the Area capital monies; £74,612 recently signed off against balance of SPACE and £15k committed for empty shops grant, remainder carried forward into 2014/15.
Carbon Management Plan	75,770	0	0	0	55,610	20,160	Lighting works underway; heating tender to be re-run.
North Worcs Water Management Capital Projects-Redditch	80,000	5,620	0	5,620	15,620	64,380	Redditch capital budget being managed through shared service on flood projects.
North Worcs Water Management Capital Projects-Bromsgrove	54,400	0	0	0	18,030	36,370	Bromsgrove Trash screen replacement project , budget adjusted to £54k. Managed by NWWM shared service for Bromsgrove.
<b>Total ECONOMIC PROSPERITY &amp; PLACE</b>	<b>1,877,600</b>	<b>502,401</b>	<b>20,102</b>	<b>522,503</b>	<b>1,200,350</b>	<b>677,250</b>	
<b>TOTAL</b>	<b>6,768,810</b>	<b>1,383,576</b>	<b>306,200</b>	<b>1,689,776</b>	<b>4,666,070</b>	<b>2,041,300</b>	

Q3 Budget Monitoring 2013/14 (to December 2013)  
Vehicle, Equipment and Systems Renewals Schedule 2013-14

**APPENDIX 3**

Detail	Revised Capital Programme 2013/14 £	Q3 Expenditure 2013/14 £	Slippage to 2014/15 £	Old Vehicle Fleet Number to be replaced	COST CENTRE	ASSIGNED FLEET NUMBER	Comments
<b>1. <u>VEHICLES</u></b>							
Refuse Freighter	80,000	0	0	83	R002		Awaiting refurbishment - expected to complete by end of financial year.
Refuse Freighter	80,000	0	0	84	R002		Awaiting refurbishment - expected to complete by end of financial year.
Mechanical Sweeper (Schmit)	75,000	65,000	0	169	R200	AV258	Complete.
Garage Equipment - Replacement (slippage)	10,000	0	10,000	-	R229	GARAGE2	To slip into 2014/15.
Mowing Machine	35,000	0	35,000	190	R236		To slip into 2014/15.
Tractor	50,000	49,950	0	17, 172	R236	AV225	Complete.
Forklift Truck	10,000	7,500	0	Forklift			Complete.
CMP Electrical Bin Lifts	9,000	0	0	83, 84			Will be included with refuse freighters above. Expected to complete by end of financial year.
<b>2. <u>OTHER</u></b>							
Financial Management System replacement	15,000	0	5,000	-	R430	FMS001	Contract let for Financial Management System upgrade for £8,700 and small contingency allowed. Remaining £5,000 to slip into 2014/15.
	364,000	122,450	50,000				

**CABINET PROPOSALS 2013/2014 ONWARDS**

Cost Centre	ACTIVITY AND DESCRIPTION OF CABINET PROPOSAL	KEY	CHANGES IN RESOURCES				Q3 2013/14 Budget Monitoring Forecast Achievement	Comments re Achievement Against Original Budget
			2013/14 £	2014/15 £	2015/16 £	After 31/03/2016 £		
SECURING THE ECONOMIC PROSPERITY OF THE DISTRICT								
R705	<u>Economic and Regeneration Initiatives</u> To provide further investment in regeneration initiatives following the State of the Area events. Delegate authority to the Director of Economic Prosperity and Place to spend in consultation with the Cabinet Review Panel (will include representation from all groups)	C R S	500,000 120,000 -	- 70,000 -	- 70,000 -	- 70,000 -		This is the State of the Area Capital monies; £74,612 recently signed off against balance of SPACE and £15,000 committed for empty shops grant,remainder carried forward into 2014/15
R224	To request that the Director investigate the alternative use of any surplus/unused property to complement the Council's Economic and Regeneration priorities, Options to include conversion into either Serviced Business Starter Incubator Units, offices, or for residential use. The business cases for such proposals be considered by the Cabinet Review Panel.	C R S	TBC TBC -	TBC TBC -	TBC TBC -	TBC TBC -		
Various	To request that the Director investigate the possibility of establishing incubator units within the Civic Centre, Stourport on Severn in partnership with Worcestershire County Council and others. Any proposals to be considered by the Cabinet Review Panel.	C R S	TBC TBC -	TBC TBC -	TBC TBC -	TBC TBC -		
R190 R187 R189	<u>Car Parking</u> During the period of the freeze of car parking charges to undertake a review of Town Centre car parking to include consideration of the provision of some elements of free parking based on the results of the recent free parking initiative	C R S	TBC TBC TBC	TBC TBC TBC	TBC TBC TBC	TBC TBC TBC		on target Free parking arranged for all three towns on specified days reduction in income offset by reduced expenditure
DELIVERING TOGETHER, WITH LESS								
Various	<u>Staff Terms and Conditions</u> Revision of Staff Terms and Conditions, including introduction of the Living Wage	C R S	- 1,000 CR -	- 10,700 CR -	- 13,600 CR -	- 13,100 CR -	£0	Delayed until 2014/2015
Various	<u>Procurement</u> To conduct a review of the major contracts currently in place with external organisations and partners to secure savings	C R S	- 25,000 CR -	- 50,000 CR -	- 50,000 CR -	- 50,000 CR -	£50,000CR	Over Achieved for 2013/14

**CABINET PROPOSALS 2013/2014 ONWARDS**

Cost Centre	ACTIVITY AND DESCRIPTION OF CABINET PROPOSAL	KEY	CHANGES IN RESOURCES				Q3 2013/14 Budget Monitoring Forecast Achievement	Comments re Achievement Against Original Budget
			2013/14 £	2014/15 £	2015/16 £	After 31/03/2016 £		
R040 R335	<b><u>Parish Localism Fund</u></b> Review of funding for Parish Councils in light of the Council Tax Scheme changes and to establish a fund of £105k in Yr 1 to support Parish Councils <b><u>Support for Cemeteries</u></b> Phase out support for cemeteries over four years (75%, 50%, 25%, 0%)	C R S  C R S	- 15,740 -  - 17,070 -	- 23,460 CR -  - 11,380 -	- 23,660 CR -  - 5,690 -	- 23,860 CR -  - - -	£11,805    £12,803	On target    On target
R337	<b><u>NNDR Relief</u></b> To conduct a review of recipients of NNDR relief	C R S	- - -	- 31,000 CR -	- 44,000 CR -	- 55,000 CR -	£0	On target for 2014/15
R410	<b><u>ICT</u></b> Review of Members' ICT - staged implementation of revised scheme	C R S	- 1,000 CR -	- 4,000 CR -	- 8,000 CR -	- 12,000 CR -	£750	on target
R410	<b><u>Members Car Parking Passes</u></b> Following the move to Wyre Forest House, to cease the issuing of free Car Park Passes to all Members. Members will still be able to claim for any parking costs incurred in line with the Members' Allowances scheme	C R S	- - -	- - -	- - -	- - -		in progress
Various	<b><u>Wyre Forest Forward</u></b> Expansion of the Wyre Forest Forward programme of efficiency savings	C R S	- 50,000 CR 2.00 CR	- 150,000 CR 6.00 CR	- 200,000 CR 8.00 CR	- 250,000 CR 10.00 CR	£37,500CR	In progress - monitored closely by CLT and reported to Group Leaders
Various	<b><u>Wyre Forest Forward</u></b> To round all Fees and Charges to the nearest whole pounds in the future for ease and efficiency (with the exception of car parking)	C R S	TBC TBC TBC	TBC TBC TBC	TBC TBC TBC	TBC TBC TBC		in progress
Various	<b><u>Fleet and Waste Strategy Review</u></b> The Director investigates the usage of the Council's freighter fleet to ensure maximum optimisation.	C R S	TBC TBC TBC	TBC TBC TBC	TBC TBC TBC	TBC TBC TBC	£290,000CR £3,100	In progress - based on refurbishment of fleet MRP

**SECURING THE ECONOMIC PROSPERITY OF THE DISTRICT**

R800	<b><u>Disabled Facilities Grants</u></b> Review of funding for Disabled Facilities Grants including seeking grant funding from Health and other partners	C R S	- - -	- - -	- - -	- - -		
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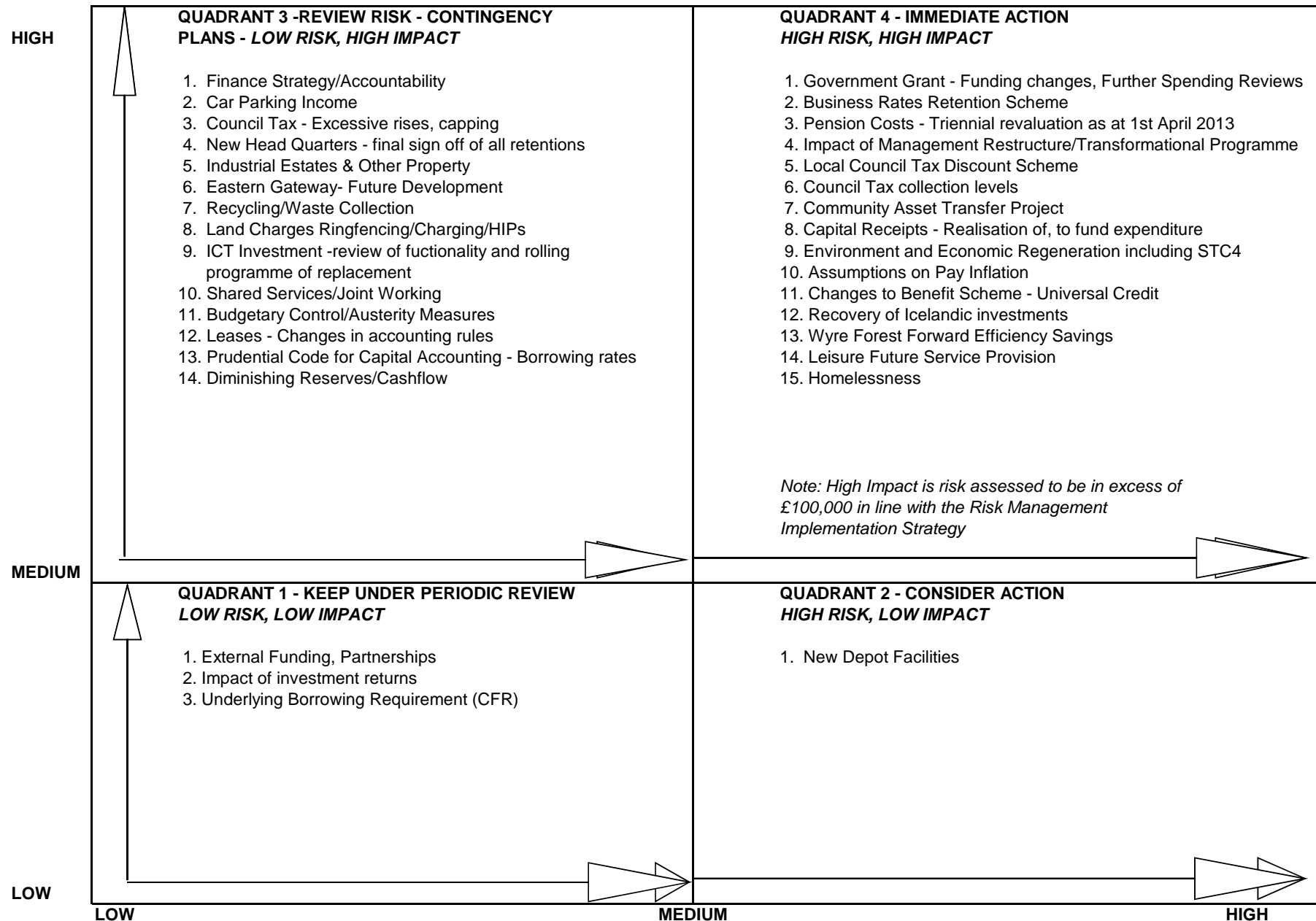
**CABINET PROPOSALS 2013/2014 ONWARDS**

Cost Centre	ACTIVITY AND DESCRIPTION OF CABINET PROPOSAL	KEY	CHANGES IN RESOURCES				Q3 2013/14 Budget Monitoring Forecast Achievement	Comments re Achievement Against Original Budget
			2013/14 £	2014/15 £	2015/16 £	After 31/03/2016 £		
IMPROVING COMMUNITY WELL-BEING								
R800	<u>Local Authority Mortgage Scheme</u> Future consideration by the Treasury Management Review Panel of the extension of the current LAMS scheme to include Shared Ownership once the existing scheme is fully operational	C R S	TBC TBC -	TBC TBC -	TBC TBC -	TBC TBC -	£0	Development of the new scheme still in progress
R720	<u>Reinstate Community Leadership Fund</u> Reinstate a fund of £1,000 per Member for 2013/14.	C R S	- 42,000 -	- - -	- - -	- - -	£31,500	on target
	TOTALS	C R S	500,000 117,810 2.00 CR	- 187,780 CR 6.00 CR	- 263,570 CR 8.00 CR	- 333,960 CR 10.00 CR		

**KEY - Changes in Resources**

- C Capital
- R Revenue
- S Staffing - Stated in FTEs

**BUDGET RISK MATRIX QTR1 - 2013/2016**



# Agenda Item No. 8.3

BUDGET RISK MATRIX 2014-17

APPENDIX 5 (part 2)

## BUDGETARY RESPONSE TO EACH RISK MANAGEMENT ISSUE IN ORDER OF QUADRANT

Qtr3 2013/14

ISSUE	BUDGETARY RESPONSE
<b>Quadrant 1 - Low Risk, Low Impact</b> 1. External Funding, Partnerships  2. Impact of Investment Returns  3. Underlying Borrowing Requirement (CFR)	<b>Keep under periodic review</b> Continue to evaluate sustainability of each scheme as part of project appraisal.  Continue to monitor and report as appropriate. The new Governor of the bank of England has indicated that the rate will remain at 0.50%. Balances available for investment are reducing over the MTFP and this together with the lower returns has been taken into account in the base budget. We continue to work with Sector in this area. The rising CFR over the term of the Budget Strategy will be carefully monitored in close liaison with Sector to gauge both the timing and type of external borrowing.
<b>Quadrant 2 - High Risk, Low Impact</b> 1. New Depot Facilities	<b>Consider Action</b> Under consideration as part of longer term Budget Process
<b>Quadrant 3 - Low Risk, High Impact</b> 1. Finance Strategy/Accountability 2. Car Parking Income  3. Council Tax - Excessive rises, referendum 4. New Headquarters final sign off of all retentions 5. Industrial Estates and Other Property 6. Eastern Gateway - Future Development 7. Recycling/Waste Collection  8. Land Charges Ring fencing /Charging/HIPs 9. ICT Investment  10. Shared Services Joint working 11. Budgetary Control/Austerity Measures  12. Leases – changes in accounting rules  13. Prudential Code for Capital Accounting – Borrowing rates  14. Diminishing Reserves/Cash flow	<b>Review Risk - Contingency Plans</b> Council are required to adopt a three year Balanced Budget Strategy. Usages/Income level closely monitored, have been adversely affected during current economic downturn, this, together with alternative usage of car parking land is factored in the MTFP Low risk due to political prudence/Key Commitments. Managed closely by RLB, Chief Executive and Solicitor to the Council Managed through Property Disposal Strategy Development opportunities continue to be explored. Review of revised working patterns in progress and further efficiencies implemented for 2013/14 are working well, but will continue to be monitored. Reduced income allowed for within Base Budget reduces the scale of any challenge. ICT Strategy Group formed to oversee/enhance the governance, planning and delivery arrangements of the strategy between ICT and council service areas  Shared Services partnerships continue to contribute to collaborative efficiencies but will be monitored to ensure risk is managed and mitigated. Continue to discourage non-essential expenditure, monthly budget monitoring reports also well in progress to provide more management information  Planned changes for the future accounting for leases could impact on the revenue budget, this will be assessed as the timescale for potential introduction in 2014 approaches External borrowing is now £4m, rates remain low but the economy is still volatile and future rates difficult to predict; Sector continue to provide technical advice Cash flow management will be tighter given reduction in capital and revenue reserves and use of the Capita Cash flow model is being trialled to improve management information to help mitigate any risk in this area
<b>Quadrant 4 - High Risk, High Impact</b> 1. Government Grant –Funding Changes, further Spending Reviews, recent Spending round and New Homes Bonus  2. Business Rates Retention Scheme  3. Pension Costs 4. Impact of Management Restructure/Transformational Programme 5. Local Council Tax Discount Scheme 6. Council Tax Collection levels  7. Community Asset Transfer Projects (CATS) 8. Capital Receipts - Realisation of to fund expenditure 9. Environment and Economic Regeneration including STC4 10. Assumptions on Pay inflation 11. Changes to Housing Benefit Scheme and Welfare Reform Act 12. Recovery of Icelandic Investments  13. Wyre Forest Forward Efficiency savings 14. Leisure Future Service Provision 15. Homelessness	<b>Immediate Action</b> Significant issue given the scale of the Spending deficit. The Strategic Review Committee and accelerated budget process will assist Wyre Forest Forward coordinating Councils future Plans. Funding arrangements introduce uncertainty and risk, the decision to join the Worcestershire Pool should mitigate this, together with our robust regeneration programme The impact of the full triennial revaluation as at 1 April 2013 has been taken into account in the Budget process Wyre Forest Forward is managing the Transformation Process including the Management Restructure to align with the Budget process. The impact of the Local Scheme will be kept under review by the Chief Financial Officer and Chief Executive. Assumptions in relation to decreased collection rates have been made in the Council Tax Base calculations as a result of the Local Council Tax Discount Scheme and these will be carefully managed and reported on. Wyre Forest Forward is continuing to manage significant CATS with CMT Capital Programme funding reflects realistic timescale for the realisation of asset disposal receipts. Temporary borrowing will be used when necessary. The Council continues to be proactive in this area and this is closely monitored by Cabinet/CMT 1% assumed for 2013/14 and 1.5% thereafter. This will be kept under review in light of approved Cabinet proposals for 2014/15. The major overhaul of the benefits systems from 2013 will be carefully managed and monitored The confirmation of the Council's preferential status in late Oct 2011 means the majority of the investments should now be recovered. Progress continues to be monitored and reported regularly to members Project Group meets every 2 weeks to progress this project The impending Welfare Reform, Universal Credit and Council Tax Benefit Reform could all increase the number of Homelessness cases within the district. This will be carefully monitored and managed by the Housing Team

**WYRE FOREST DISTRICT COUNCIL**

**Cabinet  
18<sup>th</sup> February 2014**

**Overview and Scrutiny Committee  
6<sup>th</sup> February 2014**

**Chaddesley Corbett Neighbourhood Plan – Regulation 14 Consultation  
Response**

**Recommend to Cabinet:**

- **To submit the response set out at Appendix 2 of the report to the Overview and Scrutiny Committee, to Chaddesley Corbett Parish Council as the District Council's formal response to the Regulation 14 consultation.**
- **To give delegated authority to the Director of Economic Prosperity and Place to publish the Neighbourhood Plan upon its receipt and to appoint an examiner to undertake an examination of the Plan.**

**Background papers:**

Report to the Overview and Scrutiny Committee 6<sup>th</sup> February 2014

<http://www.wyreforest.gov.uk/council/meetings/com193.htm#mt7330>