2010/2011

REVENUE AND CAPITAL BUDGETS

City and County of Swansea
Dinas a Sir Abertawe

24224-10

<u>The City and County of Swansea</u>
Dinas a Sir Abertawe

Revenue and Capital Budgets 2010/11

Introduction

This publication contains the detailed Budget Reports for the City and County of Swansea for the 2010/11 financial year as presented to Council on 22nd February 2010.

The reports were agreed subject to the following amendments:

Medium term Financial Plan (pages 52 to 74)

Page Number	Agreed amendment
57	Recommendation 2 to be amended as follows: ***'The Action plan be part of the Scrutiny Boards Work plan and the Action Plan be subject to quarterly monitoring reports,'***

The above amendment does not change the Revenue or capital Budgets as reported.

Budget 2010/11 – Overview Report

Report of the Section 151 Officer

Extraordinary Council – 22nd February 2010

BUDGET 2010/11 – OVERVIEW REPORT

Summary

Purpose:	The purpose of this overview report is to highlight the key issues running through the technical analysis within the detailed Revenue and Capital Budget reports later on the agenda. In particular to make clear the connections to : - the budget reports to Council February 2009 and subsequent financial monitoring. - the Medium Term Financial Plan.
Policy Framework:	None.
Reason for Decision:	To agree a Revenue Budget, Capital Budget and Council Tax for 2010/11 and a Medium Term Financial Plan.
Consultation:	Cabinet Members and Corporate Management Team.
Recommendation:	For Information. Specific recommendations are contained in the detailed reports.

1. Background.

When setting a budget in February 2009 a range of key risks were identified in the budget reports including:,

- The continued risk in relation to Equal Pay settlements as the Council offer has not been accepted by all claimants.
- A continuing risk relating to the eventual settlement of the Pay and Grading (Single Status) issue.
- The impact of lower interest rates.
- The financial risks relating to completion of the Payroll project.

- The impact of the recession on income levels particularly, property lettings, car parks and fees for planning services.

- Pupil specific pressures in education.

- Demographically driven expenditure increases across social care and in particular children's services.

The 2009 report made clear that the outlook for public finances was bleak and that "...future efficiency improvements, cost reductions and/or service rationalisations are inevitable under all scenarios.. ." and "...a reduction in headcount will be necessary over the planning period..."

2. Issues arising from the 2009/10 likely outturn.

In most respects the likely outturn has confirmed the forecasts of February 2009. The headline issues which impact on not only 2010/11 budget but also forward into the Medium Term Financial Plan (MTFP) can be summarised as follows:

Children and Family Services.
A forecast overspend of £7.1m driven by higher numbers of Looked after Children, increasing referral rates and continuing workforce recruitment and retention issues.

Adult Social Services.
An overspend of £2.7m as the number of eligible clients increases in line with demographic change.

Pupil Specific pressures in Education.
An overspend on SEN of £0.2m.

Recessionary impacts.
There are many but key issues likely to have been worsened by the recession include:

-	Property rentals	down £825k
-	Car Park income	down £370k
-	Interest receipts	down £328k

3. Financial outlook 2010 – 2014.

3.1 Local Authorities have a duty to set an annual budget and to adopt a Medium Term Financial Plan (MTFP) normally covering three forward years.

3.2 In normal circumstances this requires a degree of horizon scanning and forecasting in terms of both service pressures and the economic outlook.

3.3 At this time the prospects for Local Government finances, and indeed the whole public sector, are inextricably linked with the bleak national outlook arising from the banking crisis and recession. This overview sets the

Council's forecast financial position in this broader context and highlights the likely local impacts. The overview is intended to contextualise the detailed budget proposals.

3.4 A number of publications have highlighted the pressures on public finances and Local Government Finance in the period 2010 - 2014. The document *'In the Eye of the Storm'* published by the Welsh Local Government Association (WLGA) in July 2009 is particularly relevant.

3.5 The key pressures on local government arise from :

- The indirect consequences of the banking crisis and recession. In particular, the need for the UK government to repay the resulting national debt will reduce the level of revenue and capital funding available to local government for many years to come.

- Greater demand for Council services as a result of recessionary impacts (e.g. free school meals, lifelong learning, community support etc.) and demographic changes.

3.6 All commentators irrespective of political persuasion predict :

- real reductions in both revenue and capital funding over the next three to four years.

- the need to offset some of the impact by a continued drive for efficiency.

- the size of the challenge being greater than efficiency savings alone can meet. Radical choices and tough decisions are required in relation to which services are to be provided.

- the need for re-prioritisation at national, devolved and local level.

3.7 The WLGA document defined the national priorities as :

- Waste management, sustainability and climate change.
- Social Care
- Lifelong learning
- Strategic Housing
- Building strong healthy communities
- Transport and highways

3.8 The Council also faces significant challenges in terms of capital expenditure notably:

- Continued high levels of backlog maintenance
- A difficult outlook for disposals to create resources
- The need to facilitate developments, for example QED 2020

Indications are that the Council's capital allocation could reduce by 50% in 2011 and beyond impacting on current property and highways maintenance programmes and the Disabled Facilities Grants provision.

4. Budget Principles 2010 onwards.

This section summaries the approach taken in dealing with the complex and demanding situation detailed above.

The general principles adopted are,

1) Deal with issues arising in 2009/10 first.
2) Wherever possible protect front line services.
3) Prioritise – do not simply reduce all budgets equally.
4) Be clear about the challenges facing us, notably the need to employ less people.

In terms of the approach to detailed budgets these have been driven as follows:

Social Care.

The major issue in Child and Family Services is the significant overspend *in* 2009/10 that has been driven by higher levels of referrals, more Looked After Children costs, more legal cases and recruitment and retention issues.

These pressures which have a significant recurrent cost were detailed in the report to Council in November 2009.

The strategy detailed in that report was to employ sufficient staff to deal with the workload. In time, this should lead to better case management, early intervention, family support, increased fostering and adoption and consequent lower levels of referrals, Looked After Children etc. A report to Cabinet on 28th January 2010 detailed how this investment is to be scrutinised based on future performance and strong accountability. Precise timing is difficult to estimate but a stable position in service terms should lead to a reduction in spend and a more sustainable position for the long term. This is vital to the future financial health of the Council.

Education.

The Council's total budget for Education divides into delegated and non delegated elements. The delegated element largely deals with schools direct expenditure, whilst the non delegated element deals with the provision of Special Educational Needs (SEN), the funding of redundancy payments etc.

The dividing line between the two main budget elements is not always clear as actions in one area can lead to increased costs in the other. Given the overall need to reorganise school provision in the light of quality issues and falling rolls it is vital that all Education issues are funded and managed through a 'unified (single) budget' whereby the service plans on the basis of the whole service. This approach was introduced last year and is assumed to continue for the period of the MTFP. There is no other sustainable financial strategy for Education.

Other Budgets.
The key issues that cover all budgets include,

- there will be no provision for inflation. Should inflation occur responsible officers **must** make equivalent savings or cuts to balance their allocated budget.

- Fees and charges will where statutorily permissible, increase by more than inflation.

- Particular emphasis in 2010/11 and beyond will be placed on in year management. All responsible officers must **manage** cost pressures within their allocated budget as detailed in Financial Procedure Rules. If unavoidable pressures occur, responsible officers must propose offsetting in year cuts or efficiencies for approval as necessary.

5. Contingency Fund.

The explicit provision of a Contingency Fund was introduced, in line with good practice in the 2008/09 budget cycle.

The Contingency Fund is a mechanism to manage in year risk and this is achieved by,

- providing in the fund for known risks that may occur but the size and timing of which is unknown.

- providing in the fund for unknown risks that would otherwise fall upon General Reserves. Providing some cover for entirely unquantifiable risks such as Pay and Grading.

In the absence of a Contingency Fund, no specific risk provision is made and this is inconsistent with good practise. It is also likely that service Directorates would receive funding for risks that don't fully materialise with the potential for loss of financial control.

Access to the Contingency Fund is not automatic. Should a Directorate incur a financial pressure that is provided for it is expected under FPRs that they must first seek to manage within allocated resoures, using underspends for example. The ideal position would be to deliver budgets on target with no take from the Contingency Fund.

6. Summary.

How is the budget balanced in 2010/11?.
This has been achieved by:

a) robustly reviewing additional spending requirements and only including where certain

b) increasing fees and charges
c) identifying savings
d) setting targets for management cost reductions
e) planning for inflation to be met by further in year savings
d) maintaining a Contingency Fund to manage risk
e) increased Council Tax income.

How is the MTFP updated ?
This has been achieved by:

a) including the impact of the above.
b) including forward resource assumptions on settlements, increases in fees and charges.
c) updating the Action Plan.

In relation to the Action Plan, this was introduced last year as a guide to where future savings are expected to be made.

Progress against the Action Plan is reported and the updated plan re-presented. It is vital that work continues on the plan if future savings are to be achieved.

Issues relating to Capital.
The Capital Budget is set out in the detailed reports. There are no new optional schemes or increase in unsupported borrowing. Current indications are that there will be a major (up to 50%) reduction in WAG funding of capital over the next three years. Consequent reductions in spend on Disabled Facility Grants and capital maintenance budgets will be unavoidable if the expected reduction occurs.

As national funding declines it is inevitable that funding QED 2020 proposals in Education will prove extremely difficult. WAG will anticipate a significant contribution from the Authorities own resources. As detailed in the Capital report this can only be achieved by packaging expenditure, grant, future capital receipts into a self funding business case.

Risk Management.
Clear risks exist within the planning period, cost pressures, pay and grading, risk to funding streams etc.

These combined with the extremely bleak outlook for public finance nationally mean that it is essential to maintain a significant Contingency Fund in the short to medium term and to make concerted efforts to deliver the financial targets and efficiency reviews contained in the MTFP.

Background Papers : None
Contact Officer: Jack Straw, Executive Director
Extension : 7530

Revenue Budget 2010/11

Report of the Section 151 Officer

Extraordinary Council – 22nd February 2010

REVENUE BUDGET 2010/11

Purpose:	This report proposes a Revenue Budget and Council Tax levy for 2010/11
Policy framework:	None
Reason for decision:	To agree a budget and Council Tax levy for 2010/11
Consultation:	Cabinet Members & Corporate Management Team
Recommendation:	The following budget proposals be approved: a) A revenue budget for 2010/11 and b) A Budget Requirement and Council Tax levy for 2010/11

1. Introduction

1.1 This report details:

- Financial monitoring in 2009/10
- The Local Government Finance Settlement 2010/11
- Budget proposals 2010/11
- Risks and uncertainties
- Reserves and contingency requirements
- The overall Budget Requirement and Council Tax 2010/11

2. Financial monitoring 2009/10

2.1 Cabinet considered an updated assessment of forecast spending in 2009/10 on 28th January 2010.

2.2 The report highlighted a forecast overspending of service budgets of £12.710m. Whilst this overspending will be financed on a one-off basis by use of Contingency Fund and several offsetting savings, the report highlighted the need to provide ongoing funding for a significant part of the overspending in 2010/11. The attached proposals address the highlighted shortfalls in service budgets.

3. The Local Government Finance Settlement 2010/11

3.1 The Minister for Social Justice & Local Government announced the Final Settlement on 8th December 2009 .

3.2 The Settlement provides for a 1.9% increase in Assembly Grant which represents no change from the Provisional Settlement reported to Cabinet on 29th October 2009.

4. Budget proposals 2010/11

4.1 The 2010/11 budget process commenced immediately following the agreement of the 2009/10 budget. The Medium Term Financial Plan considered by Council in February 2009 forecast a £8.9m shortfall in 2010/11. However, it quickly became apparent in the early months of 2009/10 that a significantly greater shortfall was likely to occur as a result of:

- The impact of the recession
- The bleak outlook for public finances
- Unavoidable spending increases in Social Services budgets – in particular, Child & Family Services

4.2 The budget forecast for 2010/11 was set out in a report to Cabinet on 10th December 2009. This highlighted a shortfall of £15m . The report noted that this forecast was based on an assumption that services would contain a number of unavoidable spending increases within existing budgets. In particular, Education would need to find savings of £3.8m to meet the cost of the 2.3% Teachers pay award and additional Special Education Needs spending requirements.

4.3 The Cabinet report invited comments on broad options for achieving savings in 2010/11. The response of the **School Budget Forum** is attached (appendix F) together with the response of the Leader (appendix G).

4.4 Table 1 below sets out:

- An assessment of the funding shortfall in 2010/11
- Proposals to finance the shortfall by:
    - savings proposals
    - increased Council Tax income
    - a one-off non recurring use of reserves

4.5 Table 2 details **unavoidable additional spending needs** of £16.357m. These relate to shortfalls in the 2009/10 budget and a small number of new costs in 2010/11. The latter includes the Education costs noted in paragraph 4.2.

4.6 A **Contingency Fund** of £10m was provided in the budget agreed by Council in February 2009. A further £1.473m was added to the Fund on closure of the 2008/09 accounts. The budget monitoring report to Cabinet on 28th January

2010 highlighted a forecast use of the Fund of £7.723m in 2009/10 i.e a forecast Fund balance of £3.750m at 31st March 2010.

As in previous years, a significant Contingency Fund is needed for the reasons detailed in paragraph 7.4. The budget proposals provide for a re-instatement of the Contingency Fund.

4.7 The cost of the **2009 pay award** was considerably less than the amount provided in service budgets in 2009/10. As such, £1.465m will be deducted from budgets in 2010/11.

4.8 No provision has been included for potential **pay and price** increases in 2010/11. As stated above, the agreed 2.3% teachers pay award will need to be funded from within existing Education budgets. Any pay award agreed for other groups of staff will need to be similarly met from 2010/11 service budgets. The same principle will apply to any prices increases which may occur during the year.

Table 1

Shortfall and proposed funding	**£m**
Additional spending needs	16.357
Contingency Fund	10.000
	26.357
Less:	
Provision for 2009 pay award	-1.465
Capital Financing Charges	-0.104
Planned cost reductions	-1.659
Additional Revenue Support Grant	-5.013
Other items	-0.738
Shortfall	17.378
Funded by:	
Council Tax income	4.169
Savings proposals	9.680
Reserves	3.529
Proposed funding	17.378

Table 2

Unavoidable additional spending needs	**£m**
Child & Family Services	6.429
Adult Services	2.375
Reduced property income	0.825
Reduced land charges income	0.150
Additional building maintenance costs	0.250
Youth Service - new standards	0.100
Reduced drainage team income	0.280
Teachers pay award	2.428
Special Education Needs	1.286
Criminal Records Bureau Checks	0.100
Education early retirement / redundancy costs	1.000
Pension contributions	0.477
Other items	0.657
TOTAL	16.357

4.9 There will be a small reduction in **Capital Financing Charges** of £104,000. Whilst interest rates are forecast to increase during the year, it is unlikely that the current budget for interest receipts will be achieved. However, the interest receipts shortfall will be more than offset by reduced interest payments – a net forecast benefit of £90,000. There will be a small reduction in debt repayment charges of £14,000.

4.10 There will be several **planned cost reductions** amounting to £1.659m. In particular, a reduction in transportation costs of £1.4m following the re-opening of Tir John tip.

4.11 **Revenue Support Grant** will increase by 1.9% i.e increased income of £5.013m after adjusting for grant transfers.

4.12 The above items result in a **shortfall in resources of £17.378m**. It is proposed that this be met by:

a) Additional **Council Tax** income of £4.169m as a result of the proposed increase in Council Tax and an increase in the number of Council Taxpayers.

b) **Savings proposals** of £9.680m as detailed in appendix C. Significant savings will need to be made in staffing costs in future years . In 2010/11, this will include a major review of senior management , management and supervision costs to achieve savings of over £2.8m a year.

c) A temporary use of **reserves** of £3.529m. Clearly the use of reserves is unsustainable in future years and immediate steps will need to be taken to further reduce spending in line with forecast resources. The plan to achieve savings in future years is attached to the Medium Term Financial Plan report.

4.13 The above budget proposals reflect the principle of a **One Education Strategy**. The principle of treating Education as one financial strategy was established in the 2009/10 Medium Term Financial Plan and means that , in the absence of specific funding from the Welsh Assembly Government, there is an expectation that any increased Education costs will be met by offsetting spending reductions. In 2010/11, the cost of the agreed teachers pay award (£2.4m) and extra Special Education Needs costs (£1.3m) will need to be funded by offsetting reductions.

4.14 Whilst the above proposals achieve a balanced budget in 2010/11 (subject to the use of reserves described above), the risks and uncertainties detailed in paragraph 5 also need to be considered.

4.15 Proposals for significant increases in **fees and charges** are detailed in appendix E.

The budget proposals are detailed and summarised as follows:

Appendix A	Revenue budget summary	2010/11
B	Portfolio budget summary	2010/11
H	Detailed budget proposals	2010/11

5. Risks and uncertainties

5.1 As in previous years , there are a number of potential costs which are not included in the budget proposals. In particular:

ISIS – payroll implementation

Provision has been made in the capital and revenue budgets for the forecast costs of completing the new payroll system on a monthly pay basis. As stated in previous reports, it is assumed that the current allocation of costs between revenue and capital sources of finance will not be subject to audit challenge.

Equal Pay back payments

The majority of eligible staff have now settled their claims against the Council. However, a number of claims remain unresolved. As such, it is uncertain if sufficient funding will be available to meet any final settlements.

Potential Pay & Grading reviews

Similarly, it is unclear if the current budget provision will be sufficient to meet additional costs arising from any future scheme including any back payments, transitional protection costs and terms and conditions changes.

Early retirement / redundancy costs

The budget proposals assume significant staffing reductions across the Council. Whilst every effort will be made to redeploy surplus staff into suitable vacant posts it is inevitable that some staff will leave the employment of the Council. The cost of any redundancy / retirement payments is not known at this time.

International Financial Report Standards (IFRS)

Amended accounting standards applicable from April 2010 will affect the way that the Council accounts for certain items of income and expenditure. The Welsh Assembly Government is in the process of implementing regulations to negate the budget impact of these changes but there is a risk that a small number of items will not be covered by these regulations. There is a specific risk in relation to the accounting treatment of long service awards if this item is not addressed in regulations.

Additional service costs

All services are expected to contain a range of potential cost pressures in 2010/11. Any pay and price inflation will need be similarly contained. There is a risk that budget shortfalls could arise in the year if these items are significant. Such shortfalls may result in cuts in service spending plans during the year.

Planning compensation case

There remains an unresolved claim against the Council

5.2 Whilst reasonable assumptions have been made in relation to each of the above risks it is impossible to be certain that adequate funding will be available for every item. This re-enforces the need to have adequate reserves and balances available.

6. The Medium Term Financial Plan (MTFP) 2011/12 – 2013/14

6.1 Many of the issues identified in this report have implications for future years. The separate report on the MTFP includes an assessment of likely shortfalls in future years and proposals for achieving savings.

7. Reserves

7.1 It is a requirement of the Local Government Finance Act 1992 that authorities have regard to the level of reserves when calculating their Budget Requirement. Whilst there is no prescribed statutory minimum level of reserves, account should be taken of the strategic, operational and financial risks facing the Council.

General Reserves

7.2 The General Reserve amounted to £6.664m at 1st April 2009. There is no forecast use of General Reserves in 2009/10. Following a review of Earmarked Reserves, £3m is available for transfer from the Insurance Reserve.

The proposed use of General Reserves of £3.529m (see paragraph 4.12(c)) will result in a General Reserve balance of £6.135m as at 31st March 2011.

Earmarked reserves

7.3 The Council retains earmarked reserves for specific purposes. The reasons for holding these reserves are documented and are subject to ongoing review and scrutiny.

7.4 As in 2009/10, it is proposed that a Contingency Fund be provided for:

- Liabilities which may or may not arise in 2010/11
- Potential budget shortfalls which may arise if the savings proposals, detailed in appendix C are not achieved
- The risks and uncertainties detailed in paragraph 5.1
- Unforeseen expenditures or income shortfalls

As stated in paragraph 4.6, the budget proposals provide for the re-instatement of the Contingency Fund.

7.5 The forecast transfers to and from reserves are summarised in appendix D.

Adequacy of reserves

7.6 Whilst the proposed use of Earmarked Reserves in 2010/11 funds some recurring expenditure, taking into account the level of General and Earmarked Reserves which would be available should there be an overriding financial requirement , and the arrangements in place to monitor and manage financial risk in 2010/11 and future years , I am satisfied that the proposed use of reserves in 2010/11 will result in a forecast level of General Reserves, Earmarked Reserves and Provisions which is adequate, subject to the potential financial implications of the risks described in paragraph 5 above.

7.7 The Medium Term Financial Plan report highlights significant budget shortfalls in future years. It is essential that adequate reserves are maintained given the uncertain prospects for achieving large savings in the short to medium term.

7.8 Given the considerable risks and uncertainties facing the Council in 2010/11 and future years, it remains my advice as the officer designated with responsibility for the overall finances of the Council that the above represents prudent financial management.

8. Budget Requirement and Council Tax 2010/11

8.1 I am also satisfied that the attached budget proposals represent a realistic and achievable financial plan for 2010/11 subject to the potential financial implications of the risks described in paragraph 5 above.

8.2 The Council's recommended requirement is set out in appendix A. Net expenditure of £384.828m will be financed by Revenue Support Grant £236.518m , National Non-Domestic Rates £65.411m and Council Tax £82.899m . The Council Tax in respect of the Council's own requirement would be £958.33p for a band 'D' property – an increase of 4.35% compared to 2009/10.

8.3 Including community councils, the total requirement is £385.629m.

8.4 The overall Council Tax amounts, including the requirements of the South Wales Police Authority and Community Councils will be set out in the Resolutions to be made in accordance with the regulations for the setting of the Council Tax 2010/11.

9. Legal implications

9.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty.

10. Recommendation

The following budget proposals be approved:

a) A revenue budget for 2010/11 and
b) A Budget Requirement and Council Tax levy for 2010/11

Contact officer : Mike Trubey, Head of Finance
Telephone no. : 636391
Background papers: None

APPENDIX A

REVENUE BUDGET SUMMARY 2010/11

PORTFOLIO	BUDGET 2009/10 £000	BUDGET 2010/11 £000
COMMUNITY LEADERSHIP & DEMOCRACY	4,462	4,146
CULTURE, RECREATION & TOURISM	19,025	18,152
EDUCATION	155,861	155,294
ECONOMIC & STRATEGIC DEVELOPMENT	1,683	3,265
ENVIRONMENT	33,092	29,034
FINANCE	4,096	5,805
HOUSING	5,386	5,670
COMMUNITY REGENERATION	3,174	3,190
SOCIAL SERVICES	84,762	93,633
BUSINESS IMPROVEMENT & EFFICIENCY	16,687	16,718
NET DIRECTORATE EXPENDITURE	**328,228**	**334,907**
OTHER ITEMS		
LEVIES		
SWANSEA BAY PORT HEALTH AUTHORITY	100	100
CONTRIBUTIONS		
MID & WEST WALES COMBINED FIRE AUTHORITY	11,407	11,452
SEA FISHERIES COMMITTEE	162	
CAPITAL FINANCING CHARGES		
PRINCIPAL REPAYMENTS	12,869	12,855
NET INTEREST CHARGES	14,871	14,782
NET REVENUE EXPENDITURE	**367,637**	**374,096**
MOVEMENT IN RESERVES		
GENERAL RESERVES		-3,529
EARMARKED RESERVES	4,745	13,981
TOTAL BUDGET REQUIREMENT	**372,382**	**384,548**
DISCRETIONARY RATE RELIEF	278	280
TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT	**372,660**	**384,828**
COMMUNITY COUNCIL PRECEPTS	708	801
TOTAL REQUIREMENT	**373,368**	**385,629**
FINANCING OF TOTAL REQUIREMENT		
REVENUE SUPPORT GRANT	231,359	236,518
NATIONAL NON-DOMESTIC RATES	62,571	65,411
COUNCIL TAX - CITY AND COUNTY OF SWANSEA	78,730	82,899
COUNCIL TAX - COMMUNITY COUNCILS	708	801
TOTAL FINANCING	**373,368**	**385,629**
COUNCIL TAX BASE for the City and County of Swansea	85,727	86,504
COUNCIL TAX AT BAND 'D' (£) for the City and County of Swansea	918.38	958.33

GENERAL RESERVES		
AT 1 APRIL	6,664	9,664
AT 31 MARCH	6,664	6,135

APPENDIX B

REVENUE BUDGET 2010/11
PORTFOLIO BUDGET PROPOSALS

	Community Leadership & Democracy £000	Culture, Recreation & Tourism £000	Education £000	Economic & Strategic Development £000	Environment £000	Finance £000	Housing £000	Community Regeneration £000	Social Services £000	Business Improvement & Efficiency £000	Total £000
Original estimate 2009/10	**4,462**	**19,025**	**155,861**	**1,683**	**33,092**	**4,096**	**5,386**	**3,174**	**84,762**	**16,687**	**328,228**
Transfers between services	205	-27	-394	1,845	-1,818	279	89		-58	-121	
Original estimate following transfers	**4,667**	**18,998**	**155,467**	**3,528**	**31,274**	**4,375**	**5,475**	**3,174**	**84,704**	**16,566**	**328,228**
Transfer to (+) / from (-) reserves 2009/10	25	136	-218	10	-23	4,550			-232	-289	**3,959**
Original estimate 2009/10 excluding reserves	**4,692**	**19,134**	**155,249**	**3,538**	**31,251**	**8,925**	**5,475**	**3,174**	**84,472**	**16,277**	**332,187**
Baseline adjustments			880		58	1,031			1,179		**3,148**
Adjusted service budgets 2009/10	**4,692**	**19,134**	**156,129**	**3,538**	**31,309**	**9,956**	**5,475**	**3,174**	**85,651**	**16,277**	**335,335**
Spending Needs	64	68	5,035	17	447	923	301	114	8,883	505	**16,357**
Pay award		-184	-250	-48	-231	-127	-36	-28	-446	-115	**-1,465**
Planned cost reductions		-190	-30		-1,400					-39	**-1,659**
Savings	-585	-515	-5,605	-272	-1,202	-367	-70	-70	-570	-424	**-9,680**
Original estimate 2010/11 excluding reserves	**4,171**	**18,313**	**155,279**	**3,235**	**28,923**	**10,385**	**5,670**	**3,190**	**93,518**	**16,204**	**338,888**
Transfer to (-) / from (+) reserves 2010/11	-25	-161	15	30	111	-4,580			115	514	**-3,981**
Orginal estimate 2010/11	**4,146**	**18,152**	**155,294**	**3,265**	**29,034**	**5,805**	**5,670**	**3,190**	**93,633**	**16,718**	**334,907**

APPENDIX C

SERVICE SAVINGS PROPOSALS

	£000
COMMUNITY, LEADERSHIP & DEMOCRACY	
Reduced Management & Supervision costs	35
Reduced Senior Management costs	300
Reduced contribution to Swansea Bay Futures	13
Reduced marketing costs	200
Reduced secretarial costs	30
Reduced consultation costs	7
TOTAL	**585**

CULTURE, RECREATION & TOURISM	
Reduced Management & Supervision costs	150
Close Tennis Centre	50
Reduced contribution to Leisure Centre Trust	100
Cefn Hengoed Indoor Leisure saving	40
Increased leisure facility charges	85
New foreshore car park charges	10
Savings arising from library reviews	25
Reduced grounds maintenance costs	50
Increased Family History charges	5
TOTAL	**515**

EDUCATION	
Reduced Management & Supervision costs	500
Increased Music Service charges	50
Reduced spending on taxis	300
Costs to be contained within Education budget:	
Teachers Pay Award (2.3%)	2,428
Additional Special Education Needs costs	1,286
Additional retirement / redundancy costs	1,000
Other items	41
TOTAL	**5,605**

ECONOMIC & STRATEGIC DEVELOPMENT	
Reduced Management & Supervision costs	155
Reduced planning costs	117
TOTAL	**272**

ENVIRONMENT	
Reduced Management & Supervision costs	405
Remove Crucial Crew subsidy	22
Increased trade refuse charges	100
Reduced costs arising from segregated weekly waste collections	150
Reduced transport costs (APSE review)	100
Reduced bus subsidies	200
Reduced building control costs	30

APPENDIX C

SERVICE SAVINGS PROPOSALS

	£000
Reduced street lighting costs	100
New pest control charges	5
Increased parking enforcement income	50
Increased skip license charges	20
New advertising on vehicles charges	20
TOTAL	**1,202**

FINANCE

Reduced Management & Supervision costs	267
Reduced procurement costs	100
TOTAL	**367**

HOUSING

Reduced Management & Supervision costs	70
TOTAL	**70**

COMMUNITY REGENERATION

Increased Residential Outdoor Centre charges	20
Reduced Management & Supervision costs	50
TOTAL	**70**

SOCIAL SERVICES

Reduced Management & Supervision costs	500
Cease non-statutory social inclusion work	10
Increased community meal charges	10
Reduced costs rising from integrated elderly day services	50
TOTAL	**570**

BUSINESS IMPROVEMENT & EFFICIENCY

Reduced Management & Supervision costs	233
Reduced IT contract costs	50
Reduced telephone / mobile phone costs	20
New street naming charges	13
Reduced business support officers costs	88
New Swannet advertising charges	10
Reduced IT consumable costs	10
TOTAL	**424**

TOTAL SERVICE SAVINGS PROPOSALS	**9,680**

REVENUE BUDGET 2010/11

EARMARKED RESERVES

	Balance 01/04/09 £000	2009/10 £000	Balance 01/04/10 £000	2010/11 £000	Balance 31/03/11 £000
PORTFOLIO RESERVES					
Equalisation reserves	812		812		812
Development projects / external bodies	3,976	-199	3,777	-30	3,747
Pay & Gradings review	8,660	4,205	12,865	4,246	17,111
Service reserves	4,554	-1,650	2,904	-286	2,618
Renewal funds	3,740	144	3,884	51	3,935
TOTAL PORTFOLIO RESERVES	**21,742**	**2,500**	**24,242**	**3,981**	**28,223**
CORPORATE RESERVES					
Contingency Fund	8,007	-4,257	3,750	6,250	10,000
Capital Charges Equalisation	4,210	-2,500	1,710		1,710
Insurance	8,417	-3,000	5,417		5,417
Other corporate reserves	3,314		3,314		3,314
TOTAL CORPORATE RESERVES	**23,948**	**-9,757**	**14,191**	**6,250**	**20,441**
SCHOOLS DELEGATED RESERVES	**5,133**	*No information available*			

APPENDIX D

PROPOSED INCREASES IN FEES & CHARGES 2010/11

DETAILS	PROPOSED CHARGE / INCREASE
RESOURCES DIRECTORATE	
Street naming charges (new)	Introduction of charges for naming/numbering new properties/developments
SOCIAL SERVICES DIRECTORATE	
Community Meals / Day Service Meals	£2.50p to £2.70p per meal
EDUCATION DIRECTORATE	
School Meals	£1.90p to £2.00p per meal *
Home to school transport - sale of spare seats	£330 to £345 per school year**
Music Centre fees	£30 to £35 per school year
Loan fee for musical instruments (new charge)	£10
REGENERATION & HOUSING DIRECTORATE	
Indoor leisure centres	Several increases over 2%
Residential Activity Centres	Range of increases over 2%
Family History charges	Several increases over 2%
St.Helens foreshore car park charges (new)	Introduction of charges in line with other Council Car Parks.
ENVIRONMENT DIRECTORATE	
Pest control charges (new)	Introduction of Charge for Public Health Pests
Houses in Multiple Occupation - licensing fees	£50 increase in fee ***
Trade refuse charges	Increase of 15% across all residual waste services and the introduction of fees for recycling services*
Skip license charges	Skips £12 to £25 per month; Scaffolding £30 to £50 per month
Vehicle advertising charges	New scheme of charging to be developed
Burials & cremations	A number of increases in the range 2% - 3%; several increases over 3%

* From September 2010
** Increase applicable every two years
*** From 2011/12

APPENDIX F

Headteacher: Mrs A. Morgan B.Ed(Honours), M.Ed.

Clwyd Community Primary School
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25th January 2010

Councillor C Holley
City and County of Swansea
County Hall
Oystermouth Road
Swansea
SA1 3SN

Dear Councillor Holley,

School Budget Forum Response to Budget Consultation

In view of the short timescale for responses to the Budget 2010/11 and Medium Term Financial Plan presented to Cabinet on the 10th December 2009, this input to the current corporate budget process has been drafted and agreed by representatives of the School Budget Forum. *It reflects the wide ranging discussions held in the weeks prior to Christmas with Headteachers and their representatives and will be formally endorsed at the meeting of the Forum on the 25th January 2010.* In view of the seriousness of the issues facing the Council and Education services the Forum will at this meeting consider whether to share this with the incoming Education Minister as part of a formal representation. The Forum will also be considering how to make its concern manifest to parents and to wider education stakeholders.

As always the School Budget Forum has sought to support the discussions that will be held over the coming weeks. *As a statutory consultation body, the Forum trusts that the points made will be carefully considered as part of any forthcoming corporate discussion of future revenue and capital budgets.*

The School Budget Forum recognises the challenging financial context facing the Council as well as the bleak prospects for future national funding settlements. Nevertheless, it has a responsibility to seek to ensure that the full implications of any budget proposals are recognised by the Council before any decisions are taken.

We have appreciated the positive response in the previous Council Budget to some of the recommendations made by the Forum, particularly:

- The recognition of the essential contribution of the Education service to the achievement of wider Council priorities

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- The recognition of the severe financial pressures facing school delegated budgets and other statutory Education services
- The agreement that future savings from falling school rolls will be available to schools to at least, in part, support the financial pressures identified and to some degree, help to stabilise school delegated budgets across the sectors
- The agreement that school budgets will not be subject to any efficiency or savings assumption in 2008/09 and subsequent years

This has meant schools have been better able to manage the significant pressures and increasing expectations placed upon them. Also the effects of large scale redundancies on the Council, have been mitigated.

Nevertheless, the Forum has consistently raised concerns, for example:

- The significant additional pressures facing schools from areas such as energy costs against a backcloth of increasing deficits in a number of schools.
- The accepted underfunding of Foundation Phase costs by the Assembly which primary schools are already having to manage.
- The uncertainty regarding the implications of the new statutory requirements for 14 to 19 provision and the apparent lack of any Assembly funding.
- The inflexible nature of much school spending. Necessarily, provision is planned on an acedemic year basis and commitments are made to young people. A requirement for immediate budget savings that cuts across this, causes chaos and distress. It also rules out consultation with those affected, which is a statutory need.
- The need to maintain stability in delegated school budgets over the next few years to allow schools to respond to the scale of challenges being faced.

The Forum desires to work with the Council, especially in allowing resources to support front line services rather than redundancy costs. The current Staff Management strategy is an example of this.

The Forum supports the Council regarding the need to review the provision of school places, including school closures. The Forum is adamant that this should be part of a longer term strategy to address the serious structural and suitability needs relating to school premises and facilities.

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However, **the Forum is extremely concerned at the financial assessment and broad options for achieving a balanced budget set out in the Cabinet Report of the 10th December 2009** and would particularly emphasise the following points:

- **The Forum does not consider that the report provides anything like a sufficient level of detail to be considered an adequate basis for genuine consultation and would certainly expect a further opportunity to comment on the fuller detailed package of proposals as soon as possible.**
- The Forum asks for an urgent response as to why the Council is failing to pass on funding, that it understands has been clearly provided by the Assembly, to meet the full costs of the teachers' pay award. For sure, it would be a sad day if the Council failed to recognise the priority that the Assembly appears to have placed on Education Provision. Is the Forum to understand that there will be no pay or price increase to support the teachers pay award?
- The Forum questions why Education Services are being required not only to contain significant financial pressures but also, at the same time, to deliver major cuts in its services and core staffing. It seems to be the case that the considerable pressures on Social Services for example, are being funded by the Council. If the Council is proposing to reallocate funding from Education to Social Services budgets, then this should be quite transparent. In integrity such a proposal should articulate the serious consequences and impact on children's schooling.
- The Forum does not consider that the proposed Financial Plan supports in any way a move towards a genuine 'one education pot' budget strategy – indeed it fundamentally undermines the positive engagement with stakeholders which has been developing over recent years.
- The Forum would seek clarification of the justification for a proposed *cash reduction* in funding for Education services within Swansea when the Assembly Settlement provides for a 2.3% increase in Education IBA and an increase of 1.9% in Assembly funding to the Council as a whole.

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- The Forum understands that the Assembly may have included a general 'efficiency savings' target of 1.6% within the Settlement but would ask how the Council justifies a cut of around 4% in Education budgets (including the delegated schools budget which was previously exempt from any such general efficiency target). This is on top of the impact of reductions in specific grants from the Assembly, particularly Better Schools Fund.
- The Forum asks what is the impact of the proposed financial plan on the comparison of Education spending against the Education Indicative Based Assessment? In the current year the Council chose to spend at 100.8% of Education IBA but the proposals will surely result in the Council spending significantly less than Education IBA in the coming year. How will this be justified?
- The Forum asks how the proposed financial plan carries forward the Council's commitment to deliver on increase in Education funding per pupil within Swansea.
- The Forum would ask whether the Council is prepared to accept the extremely serious implications of the proposed financial plan in relation to Education services for children within Swansea. In particular:
  - Class sizes will increase further in Key Stage 2 where there are already classes over 30 pupils
  - Curtailment of Foundation Phase roll out
  - Reduction in breadth of curriculum delivery by schools in conflict with legislation and growing national expectations for 14-19
  - Risk to delivery of other statutory duties such as PPA and Rarely Cover
  - Risk to delivery of statutory and regulatory duties in relation to Additional Learning Needs and child protection
  - Increasing demands for support for special needs of pupils as schools are unable to deliver from within mainstream delegated budgets
  - Loss of pupil access to important learning experiences and opportunities, for example through the music service, and to vital support from services such as EMLAS
  - Major redundancies with associated costs falling on the Council – this will be exacerbated by the inability to continue to target some additional funding to support schools facing the greatest financial and other challenges (e.g. from falling pupil numbers)

- Likely impact of schools having little option but to withdraw from Service Level Agreements, with knock on effects on central services
- Loss of important areas of provision for the social needs of pupils through school meals for example (in line with Appetite for Life)
- Loss of the few remaining areas of discretionary education provision – particularly post 16 transport support
- Severe reduction in ability of centrally retained services to provide adequate support and challenge to schools in line with clear statutory and regulatory duties
- Serious risk of insufficient capacity within the Directorate to continue to progress the emerging QEd 2020 programme
- Serious impact of the scale of such cuts in education provision on the wider Council priorities in areas such as local regeneration and anti poverty strategies
- Any sense of Swansea education as an investment in the future of the City will be lost.
- The likelihood of heads in both primary and secondary sectors sending pupils home for part of the working week or curtailing teaching time on courses, because of inability to fund staff and provision.
- The proposed settlement will send almost all secondary schools and an increasing number of primary schools into significant deficit. ALL secondary schools cannot be poor managers of their budgets. Such a proposed settlement clearly underlines a deep rooted malfunction in the Authority's approach to school funding.
- Unless there is very significant additional funding for the financial year 2011/12, (so unlikely as to be discounted,) the wide ranging deficits brought about by this year's proposed settlement will become 'meltdown' for most schools the following year. Schools face the prospect of never getting on an even keel.

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The Forum takes the view that essentially, these matters and concerns, are a function of political judgements and priorities, rather than technical matters of administration. If it is the political judgement that education funding is to be so stringently reduced, and, deployed elsewhere, (seemingly social services,) then the Forum states:

1. This should be made clear by Swansea Council to all education stakeholders specifically parents and carers, pupils, teachers and governors.
2. The reasons why, should be made clear.
3. The risks to the education system should be articulated fully and details given to schools of how students currently in the system can be supported and not have their futures blighted.
4. The plans for the education service recovering in the future, should be articulated by the council.

We trust that you will seriously consider these points in coming to any decisions regarding future Council budget allocations. We invite you to attend the next School Budget Forum to respond to the very serious matters in this letter.

Yours sincerely,

Mrs PA Morgan
Head Teacher
Clwyd Community Primary School

J Blackburn

Ann Morgan
Chair of School Budget Forum

Joe Blackburn
Vice-Chair of School Budget Forum

APPENDIX G

CITY AND COUNTY OF SWANSEA

DINAS A SIR ABERTAWE

Ann Morgan
Chair of School Budget Forum
Copies to all Forum members

Please ask for: Gofynnwch am:	Cllr Chris Holley
Direct Line: Llinell Uniongyrochol:	01792 636141
E-Mail / E-Bost:	chris.holley@swansea.gov.uk
Our Ref / Ein Cyf:	CH/SH
Your Ref / Eich Cyf:	
Date / Dyddiad:	5th February 2010

Dear Ms Morgan

School Budget Forum Response to Budget Consultation

Thank you for your letter dated 6 January, highlighting the many and varied concerns that the School Budget Forum was likely to raise formally at the meeting of the Forum on 25 January and the final, agreed, letter on the Forum's behalf dated the same. It has certainly been most useful to have advance sight of the main themes as we move into a period of quite turbulent finances for the public sector in general and consequently for the City and County of Swansea and all our schools.

I share your concerns over the seriousness of the issues facing the Council and Education Services as a result of the much tighter economic position the whole country finds itself in. It comes equally as no surprise that this manifests itself in a very tight settlement for Swansea which will require some very difficult and painful decisions to be made about competing and compelling priorities. The same will doubtless be true for individual school governing bodies and headteachers.

I can assure you, that as ever, the Schools Forum points will be carefully and fully considered as part of the continuing and forthcoming discussions of future revenue and capital budgets. Your useful input to each year's budget cycle is noted and appreciated and forms a significant part of the wider consultation we draw all members attention to when deciding on the budget to set at Council.

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CHRIS HOLLEY
LEADER / ARWEINYDD

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I will seek to address as many of the issues raised as possible but inevitably some of the discussion points and major decisions are still to be debated and taken as part of the normal budget consultation and approval cycle.

I do recognise the essential contribution of the Education service to the achievement of wider Council priorities. I equally recognise the severe financial pressures facing school delegated budgets and other statutory Education services but do have to set these in the context of severe financial pressures felt across all services the Council provides.

Given the scale of the financial pressures facing this and other authorities, however, I can not agree that schools can be shielded from all effects of funding pressures on an ongoing basis in regard to:

Future savings from falling school rolls continuing to be available to schools to at least, in part, support the financial pressures identified and to some degree, help to stabilise school delegated budgets across the sectors.

School budgets continuing to not be subject to any efficiency or savings assumption.

In terms of your first set of 'pre-existing' concerns

Whilst I recognise the significant additional pressures facing schools from areas such as energy costs I equally am aware of similar spending pressures in other areas. Schools were of course to some extent protected from some of these pressures by being in receipt of Assembly funding for special and energy grants. I have noted that the Assembly has transferred these grants into Revenue Support Grant from 2010-11 locking them into core funding. Furthermore I have confirmed that the authority's officers have passported this baseline adjustment fully through to the Education portfolio cash limit and into the Schools Budget.

Whilst I accept you have concerns over underfunding of Foundation Phase costs by the Assembly, that surely is a matter for you and us to continue to seek to address in unison with the Assembly. This authority can not be expected to make good any shortfalls in funding at source.

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Again I would suggest that concerns regarding the uncertainty of the implications of the new statutory requirements for 14 to 19 provision and the apparent lack of any Assembly funding are a matter for us jointly to raise with the Assembly, not a matter for the Council to make good financially from constrained and underfunded resources.

I accept that much of school spending is staff and premises related and there is very little else in the budget to have significant flexibility over spending. I further understand and accept that provision is planned on an academic year basis. Nevertheless schools and councils are well aware of and used to working on a financial year that runs from April to March. Furthermore the nature of the funding and budget cycle is such that our grant settlement, budget planning, budget setting and implementing our proposals always fall into a very compressed timescale.

I would wish, like you, to maintain a degree of stability in delegated school budgets to allow schools to respond to the scale of challenges being faced but I cannot extend that to mean exemption for schools from the pressures that all of our services face and are having to respond to.

In terms of your second set of new and additional concerns

The draft budget report is in the normal format for the consultation undertaken at this time of year. This is inevitably driven by the timing of the settlement announcement from the Assembly and the timing of our own budget setting processes. Inevitably it is a record of the journey to date, not an end outcome as many of the proposals and issues have yet to be fully deliberated and discussed within and without the authority. That is the nature of a consultative process. The only matter that has changed is the fundamental scale of the budgetary pressures and attendant savings required from across all budgets.

The Council has acknowledged the agreed teachers pay award in its overall budget assessment for 2010/11. You will be aware that this level of award is considerably more than other staff will receive, if anything. The 1.9% increase in RSG provides for a large range of spending pressures across all council services and significantly, reflects a 1.6% efficiency assumption by the Assembly. The Assembly has clearly not explicitly provided for a 2.3% teachers pay award increase in the Council's RSG settlement and it is unrealistic to expect other Council services to make cuts to pay for this very significant extra cost.

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As such, the proposal is that the cost is met from within the overall Education budget. This is totally consistent with the approach adopted with other Council services i.e. no provision will be made for pay and price inflation in 2010/11 budgets.

Education Services like our other services are under enormous financial pressure. There is, as you say, a proposed increase in funding for Social Services as set out in the draft budget paper. This is unavoidable given the massive pressures on this service – in particular a 40% increase in Looked After Children since December 2008. Equally there has been significant and sustained increases in funding for the growing need and demand for SEN provision.

I regret that the Forum does not consider that the proposed Financial Plan supports in any way a move towards a genuine 'one education pot' budget strategy. The proposals do seek to manage and contain funding and spending pressures across education as a whole but I recognise the scale of funding pressure will cause difficulties. It is easy for all parties to agree principles and intentions in the good times, always difficult in leaner times.

The IBA increase for the Council is 2.3% - the Education increase is 1.7%. Social Services is 3.1%. As you are aware, IBAs are used to distribute grant between councils. They are not an absolute measure of a spending need and have never been accepted as such by the WLGA or this Council. Very significantly, a 2.3% in our Council IBA is not matched by a 2.3% increase in our grant. As such it is misleading to link our RSG increase (1.9%) to the IBA increase (2.3%) in this way.

The Assembly has indeed included a general 'efficiency savings' target of 1.6% within the settlement. The likely constrained funding for specific grants and substantial reductions in, for example, Better Schools Fund grant, do of course compound the financial pressures that schools and the authority will find itself in but decisions on cutting specific grants are a decision taken by the Assembly. The authority can not make good specific grant cuts from its already constrained general grant.

As stated above, this Council does not accept the validity of IBA/spending comparisons.

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I can assure the Forum that the Council is aware of the implications of the proposed financial plan in relation to Education services for children within Swansea and indeed the implications for all of its very difficult budget decisions this year. Many of those decisions will be taken far from lightly but nonetheless a balanced budget will have to be set and that will mean new ways of working more collaboratively between sectors to deliver services efficiently and effectively. You can be assured that your comments will as ever be fully shared with the Council when making its final budget deliberations.

In setting budget plans the authority does expect headteachers and governing bodies to fully support the review of how services are delivered locally whilst balancing this with the need to deliver existing statutory education obligations and Council approved education policies. I would also wish to refer you to the guidance note of the Corporate Director (Education) and the supporting materials which have been already issued to all headteachers and chairs of governors to assist their schools, and their governing bodies, in working up their own detailed plans and budgets.

Yours sincerely

COUNCILLOR CHRIS HOLLEY
LEADER

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APPENDIX H

PORTFOLIO BUDGETS

2010/11

Community Leadership & Democracy

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Chief Executive		
Swansea Bay Futures	92,900	79,400
	92,900	79,400
Head of Marketing Communications and Overview		
Communications	396,400	361,200
Compact Funding	471,000	471,000
Corporate Marketing	257,100	45,400
Corporate Mgt Team Support	478,300	159,200
Overview and Scrutiny	310,700	303,200
	1,913,500	1,340,000
Head of Legal and Democratic Services		
Democratic Services and Complaints	459,700	704,700
Elections	296,200	301,100
Mayoral Services	133,900	133,500
Members Costs	1,565,700	1,587,600
	2,455,500	2,726,900
Total Community Leadership & Democracy	4,461,900	4,146,300

Revenue Budget 2010/2011

Culture, Recreation and Tourism

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Director of Regeneration and Housing		
Regeneration Directorate	203,100	162,000
	203,100	162,000
Head of Culture and Tourism		
Archives	346,200	327,200
Arts	2,729,600	2,710,700
Development and Outreach	491,100	487,900
Libraries	3,187,700	3,147,100
Parks	6,089,200	5,970,000
Sport and Recreation	3,485,800	3,006,300
Tourism, Marketing and Events	1,716,900	1,735,300
Directorate & Other Costs	775,000	755,500
Reduced Management and Supervision Costs	0	-150,000
	18,821,500	17,990,000
Total Culture, Recreation and Tourism	19,024,600	18,152,000

Revenue Budget 2010/2011

Education

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Delegated Schools		
School Cost Centres	121,841,000	121,145,000
	121,841,000	121,145,000
Head of Education Effectiveness		
Better Schools Fund	1,085,400	866,600
Education Library and Resources	27,500	27,200
ELIS	30,700	30,700
Ethnic Minority Language Service	559,900	581,900
Management and Admin	226,200	225,200
Miscellaneous Grants	184,200	184,200
Music Service	566,700	510,300
Remodelling Secondment	5,200	5,200
School Effectiveness	1,174,100	1,097,000
School Intervention	993,600	311,600
Support for the Arts	119,300	119,200
Travellers Service	63,400	65,400
Welsh Service	442,800	476,600
	5,479,000	4,501,100
Head of Education Inclusion		
Access to Learning Mgt and Admin	251,600	253,000
Behaviour and Learning Support	1,615,300	1,636,600
Community Education	599,100	569,100
Employment Training	831,900	949,500
EOTAS Pathways	778,900	826,400
Home Tuition Service	613,100	626,700
Management and Admin	146,300	145,000
One to One Support Primary	4,493,300	4,942,600
One to One Support Secondary	2,177,500	2,395,200
Psychology Service	760,000	758,400
Pupil Referral Units	1,826,200	1,837,600
Recoupment	690,400	690,400
School and Governor Unit	284,500	288,500
SEN Statementing and Support	3,224,600	3,036,300
Student Finance	273,500	283,500
Welfare Service	591,800	605,300
	19,158,000	19,844,100

Revenue Budget 2010/2011

Education

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Head of Education Planning and Resources		
Asset Management	134,100	135,800
Catering Service	-5,000	0
Cleaning Service	1,011,400	1,026,400
Continuing Education	799,600	786,500
DCELLS	-7,101,900	-6,792,900
Empty Properties	600	600
Health and Safety	62,900	62,900
ICT Strategy	1,054,000	972,800
Management and Admin	1,282,200	942,200
School Cost Centres	11,345,400	12,400,100
School Funding and Information	129,400	129,400
School Meals Client	697,700	697,700
School Meals Service	-92,000	-122,000
School Planning and Information	64,600	64,300
	9,383,000	10,303,800
Management and Supervision Costs		
Management and Supervision Costs	0	-500,000
	0	-500,000
Total Education	155,861,000	155,294,000

Revenue Budget 2010/2011

Economic & Strategic Development

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Head of Planning Services		
Environment Conservation	685,400	664,400
Planning Applications & Administration	274,100	159,300
Planning Policy & Appeals	653,000	634,300
Directorate & Other Costs	279,400	266,000
Reduced Management and Supervision Costs	0	-95,000
	1,891,900	1,629,000
Head of Economic and Strategic Development		
Business Support	372,600	369,200
City Centre	-199,400	-199,900
Property Development	563,300	556,900
Strategy Development	684,300	719,800
Directorate & Other Costs	262,000	250,000
Reduced Management and Supervision Costs	0	-60,000
	1,682,800	1,636,000
Total Economic & Strategic Development	3,574,700	3,265,000

Environment

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Director of Environment		
Directorate & Other Costs	-8,000	148,900
	-8,000	148,900
Head of Environmental Health		
Building Regs	170,500	170,700
Burials and Cremations	47,900	16,700
Food	493,200	494,700
Licensing	-129,700	-93,100
Registrars	144,600	142,500
Trading Standards	910,600	861,700
Directorate & Other Costs	748,900	678,000
Reduced Management and Supervision Costs	0	-70,000
	2,386,000	2,201,200
Head of Environmental Protection		
City Centre	109,800	109,800
Pollution	776,600	789,800
Public Health	911,300	1,004,600
Swansea Marina	24,800	25,500
Waste Management	15,257,600	13,287,400
Directorate & Other Costs	109,900	113,100
Reduced Management and Supervision Costs	0	-70,000
	17,190,000	15,260,200
Head of Highways and Fleet Management		
Central Car Pool	80,000	85,900
Central Transport	0	22,000
Highways	8,065,200	8,097,500
Reduced Management and Supervision Costs	0	-175,000
	8,145,200	8,030,400
Head of Transportation		
Car Parks	-1,886,400	-1,971,300
Engineering	287,900	353,700
Traffic Management	1,287,800	1,257,000
Transportation	3,300,300	3,178,900
Directorate & Other Costs	497,300	665,000
Reduced Management and Supervision Costs	0	-90,000
	3,486,900	3,393,300
Total Environment	31,200,100	29,034,000

Revenue Budget 2010/2011

Finance

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Director of Resources		
Resources Directorate	154,500	163,000
	154,500	163,000
Head of Corporate Property and Asset Management		
Design and Print	400,000	394,300
Facilities Management	3,956,700	3,882,500
Strategic Estates Properties	-4,324,700	-3,471,800
Reduced Management & Supervision costs	0	-75,000
	32,000	730,000
Head of Finance		
Accountancy	1,196,000	1,504,100
Audit	551,700	548,000
Benefits	861,100	857,000
Corporate Costs and Grants	-1,426,700	-440,700
Finance DMT	-886,600	-886,300
Revenues	1,813,400	1,761,700
Treasury and Technical	1,359,600	1,260,400
Reduced Management & Supervision costs	0	-62,000
	3,468,500	4,542,200
Head of Strategic Procurement and ISIS Development		
Procurement	440,900	499,800
Reduced Management & Supervision costs	0	-130,000
	440,900	369,800
Total Finance	4,095,900	5,805,000

Housing

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Head of Corporate Building Services		
Corporate Building	-30,000	-15,700
Property Preventative Maintenance	4,091,000	4,408,700
Reduced Management and Supervision Costs	0	-40,000
	4,061,000	4,353,000
Head of Housing		
Homeless Prevention	-3,800	-1,000
Grants to Independent Sector	85,500	85,500
Urban Renewals	337,400	391,000
Housing Options	821,300	765,600
Other Housing Services	84,900	105,900
Reduced Management and Supervision Costs	0	-30,000
	1,325,300	1,317,000
Total Housing	5,386,300	5,670,000

Revenue Budget 2010/2011

Community Regeneration

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Head of Community Regeneration		
Children and Play	107,700	109,500
Community Recreation	515,900	520,700
Community Regeneration	340,300	261,500
Community Safety	642,900	639,400
Residential and Outdoor	370,500	347,100
Youth Service	1,055,200	1,225,000
Directorate & Other Costs	141,400	136,800
Reduced Management and Supervision Costs	0	-50,000
	3,173,900	3,190,000
Total Community Regeneration	3,173,900	3,190,000

Revenue Budget 2010/2011

Social Services

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Head of Child and Family Services		
Assessment and Care Mgt Child and Family	5,066,400	7,539,400
Accomodation Services-External	4,071,100	7,562,200
Accomodation Services-Internal	4,014,200	4,462,400
Residential Care-Internal Provision	2,024,400	1,197,800
Adoption Services	533,600	907,400
Aftercare-External	468,300	475,800
Aftercare-Internal	370,400	527,900
Family Support Services-External	1,973,800	2,098,900
Family Support Services-Internal	1,465,200	1,256,300
Other Children's Services-Internal	475,000	918,400
Preventing Youth Offending	1,069,800	1,059,900
Review and Quality Assurance	423,600	418,900
Mgt and Admin Child and Family	2,428,900	2,135,700
	24,384,700	**30,561,000**
Head of Adult Services (Older People and Disability)		
Assessment and Care Management Older People	3,363,500	3,353,200
Community Alarms Older People	327,500	302,900
Community Meals External Provision	166,900	151,700
Day Services Older People	1,371,900	990,600
Domicillary Care Older People	11,063,000	13,348,600
Intermediate Care Older People	265,100	194,800
Occupational Therapy Older People	497,200	494,200
Older People & Disability Service Administration	1,316,900	1,316,300
Residential Long Term Older People	13,111,200	13,424,300
Residential Short Term Older People	466,200	490,300
Voluntary Agencies Contributions Older People	58,600	58,600
Assessment and Care Management Disability Service	783,400	808,000
Community Alarms Disability Services	4,700	5,200
Day Services Disability Services	1,011,900	706,900
Domicillary Care Disability Services	1,794,200	1,850,200
Equipment and Adaptations	576,600	565,200
Occupational Therapy Disability Services	234,000	232,600
Residential Long Term Disability Services	1,212,100	1,153,400
Voluntary Agencies Contributions Disability Serv.	228,600	228,600
	37,853,500	**39,675,600**

Revenue Budget 2010/2011

Social Services

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Head of Adult Services (Mental Health and Learning Disabilities)		
Central Management and Administration	973,600	973,800
Community Mental Health Teams	1,084,800	1,006,200
Community Support Teams	1,025,900	1,032,200
Flexible Support Services Learning Disibilities	389,800	383,600
Learning Disability Day Services	4,546,500	3,984,900
Learning Disability Respite Services and Maesglas	1,536,000	1,503,400
Llanfair House	354,100	355,800
Mental Handicap Strategy	-1,703,400	-1,718,700
Mental Health Carers Grant	0	35,000
Mental Health Day Services	606,200	542,500
Protection of Vulnerable Adults	141,100	230,300
Residential Services-Ext Provision Learning Dis.	6,608,000	7,116,200
Residential Services-Ext Provision Mental Health	1,500,700	1,576,200
Special projects Learning Disabilities	196,800	196,800
Substance and Alcohol Abuse	142,100	142,100
Substance misuse & Involve	109,500	111,100
Transport Depot	43,100	1,512,800
	17,554,800	18,984,200
Directorate Services		
Business Support	714,000	679,200
Carers	508,800	614,100
Commissioning Support Directorate	2,145,000	1,999,400
Supporting People Services	572,900	583,300
Central Services	666,500	668,600
Service Strategy and Regulation	135,700	134,600
Social Services Training Section	226,100	233,000
Reduced Management & Supervision costs	0	-500,000
	4,969,000	4,412,200
Total Social Services	84,762,000	93,633,000

Business Efficiency and Improvement

	ORIGINAL BUDGET 2009/2010 £	ORIGINAL BUDGET 2010/2011 £
Head of Human Resources and OD		
Health and Safety	853,900	1,029,800
Human Resources and Pensions	1,358,100	1,540,800
Training	345,600	316,100
Reduced Management & Supervision costs	0	-84,000
	2,557,600	**2,802,700**
Head of Information and Customer Services		
Contact Swansea	1,320,100	1,294,000
ICT	7,242,400	7,239,100
Research and Information	546,500	529,500
Reduced Management & Supervision costs	0	-26,000
	9,109,000	**9,036,600**
Head of Legal and Democratic Services		
Coroners	406,500	428,200
Corporate Complaints	220,400	0
Legal Services	1,421,700	1,596,700
Practice Management	257,000	258,900
Reduced Management & Supervision costs	0	-48,000
	2,305,600	**2,235,800**
Head of Performance and Strategic Projects		
Joint Resilience Unit	159,600	209,700
Performance and Strategic Planning	651,200	605,900
Strategic Projects	770,800	768,000
Reduced Management & Supervision costs	0	-75,000
	1,581,600	**1,508,600**
Head of Strategic Procurement and ISIS Development		
ISIS Development	541,000	496,200
Payroll	592,500	638,100
	1,133,500	**1,134,300**
Total Business Efficiency and Improvement	**16,687,300**	**16,718,000**

Medium Term Financial Plan
2010/11

Report of the Section 151 Officer

Extraordinary Council – 22nd February 2010

MEDIUM TERM FINANCIAL PLAN 2011/12 – 2013/14

Purpose:	This report details the Medium Term Financial Planning process and proposes a detailed Action Plan
Policy framework:	None
Reason for decision:	To agree an Action Plan and process to achieve future savings
Consultation:	Cabinet Members & Corporate Management Team
Recommendations:	(1) The Medium Term Financial Plan assessment be noted and the attached Action Plan be approved and (2) The Action Plan be subject to quarterly monitoring reports

1. Background

1.1 The Council's Improvement Plan outlines the corporate priorities for the Council over the next few years. The Medium Term Financial Plan (MTFP) is a key document in outlining the actions required to achieve our corporate priority of *"Making the best use of our resources so that the City & County of Swansea provides the best possible services – by living within our resources and achieving financial stability"*. Under the new Local Government (Wales) Measure the focus remains on continuous improvement and this will need to be demonstrated through the business planning process and the efficiency savings and actions contained in the MTFP. Auditors from Wales Audit Office and PricewaterhouseCoopers will conduct a corporate assessment between May and July 2010, that will draw on performance and financial evidence to assess whether *'the Council is likely to comply with the statutory duty to secure continuous improvement'*.

1.2 The MTFP is a key document in the Council's annual budget setting process and

- includes a broad assessment of future spending needs and likely resources
- estimates the overall financial position in each of three future years
- proposes a strategy and plan for achieving a balanced budget in each year

2. Forecast Resources

2.1 There is considerable speculation regarding the likely level of resources to be made available to Local Government in future years. Whilst it is impossible to accurately forecast the outcome of the forthcoming spending review at this time, it is clear that future grant reductions are likely to be significant.

2.2 Several independent bodies have produced broad assessments of likely reductions. The Institute of Fiscal Studies (see note) has forecast that spending on public services will fall in real terms by 3.2% per year i.e. a potential reduction in grant for this Council of £10m per annum. Other organisations have produced similar or worse assessments.

2.3 For the purpose of this MTFP, the following assumptions have been made:

- A real terms £10m reduction in funding each year
- Limited (if any) provision for inflation
- No growth in service spending other than the small number of items detailed in table 1
- As a general rule, services to contain new spending needs within existing budgets

3. Spending Needs and Forecast Shortfalls

3.1 The broad assessment of forecast shortfalls is detailed in table 1

Table 1
Forecast shortfalls 2011 - 2014

	2011/12 £m	2012/13 £m	2013/14 £m
Reduced funding	10.0	20.0	30.0
Waste disposal costs	0.7	1.4	2.1
eGovernment Programe - special repayments			4.0
ISIS upgrade		2.3	
Special Education Needs	1.0	2.0	3.0
Pension contributions	2.5	5.0	7.5
Demographic changes	0.5	1.0	1.5
Other pressures	5.0	5.0	5.0
Forecast shortfalls	**19.7**	**36.7**	**53.1**

3.2 **Reduced funding** of £10m per annum is assumed i.e. a loss of grants of £30m per annum by 2013/14.

Note: Source is Institute of Fiscal Studies post budget briefing on 10th December 2009

3.3 **Waste disposal costs** are increasing each year and penalties can be applied from 2011/12 if landfill allowances are exceeded.

3.4 **Special repayments** of monies borrowed to fund the eGovernment Programme will be required in 2013 – 2016 in accordance with paragraph 5.1.3 of the contract award report approved by Cabinet on 1st December 2005 as follows:

"..special repayments of borrowings are made in years 9 – 11 to ensure that....all costs are fully financed within the period of the programme.."

To achieve full repayment by the end of the contract with Capgemini the following special repayments are required:

2013/14 £4.0m
2014/15 £4.3m
2015/16 £1.1m

3.5 Oracle support for the ISIS system will cease in 2013. This will require an **ISIS upgrade** at a forecast cost of £2.3m.

3.6 Subject to review in accordance with the attached Action Plan, spending on **Special Education Needs** is forecast to increase by £1m per annum if spending reductions can not be achieved.

3.7 **Pension contributions** are likely to increase following the 2010 actuarial valuation. The extent of any increase is not known at this time but an increase similar to that arising from previous reviews would result in an additional cost of £2.5m per annum.

3.8 **Demographic changes** will impact on several Council Services in particular Social Services. An estimated additional cost of £500,000 per annum should be considered a minimum.

3.9 Provision has been made for **other pressures** of £5m in each year.

3.10 Whilst the above assessments result in forecast shortfalls of £19.7m in 2011/12 rising to £53.1m in 2013/14, it should be noted that other risks and uncertainties could greatly increase (or decrease) figures including:

- implementation of a Single Status agreement
- service specific issues e.g. waste disposal costs
- the impact of capital spending reductions on the revenue budget

4. Action Plan and Business Improvement & Efficiency Programme

4.1 The MTFP considered by Council in February included an Action Plan to address the shortfalls forecast at that time. A large number of actions have been progressed during the year and the updated plan shows the current status of each item and known/estimated financial implications. The plan also details new items.

4.2 **As previously, the Action Plan is designed to resolve the above shortfalls. However, given the worsening financial outlook, it is clear that more actions will need to be added over the next year to ensure that sufficient savings can be achieved in future years. These will inevitably include:**

- **a significant headcount reduction**
- **a reduction of service levels**
- **a reduction of service provision**
- **increased charges for Council services**

4.3 In order to further develop the MTFP approach it is necessary to continue to develop a Business Improvement and Efficiency programme which sets out the work to be undertaken in 2010/11 to:

- address the shortfall in each future year
- deliver efficiencies i.e. the same for less, or more for the same
- increase effectiveness and service quality
- improve cross directorate working
- improve multi agency working
- potentially reduce service provision in targeted areas
- promote flexible working
- detailed examination of core services

Given the challenging targets faced, setting out an explicit programme of work is essential if the planning and delivery of change is to commence sufficiently early for the demanding targets to be met.

5. Legal Implications

5.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty.

6. Recommendations

(1) The Medium Term Financial Plan assessment be noted and the attached Action Plan be approved and

(2) The Action Plan be subject to quarterly monitoring reports

Contact officer : Jack Straw, Director of Resources
Telephone no : 637531
Background papers : None

MEDIUM TERM FINANCIAL PLAN - ACTION PLAN

A. NEW ITEMS

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
1	PS	Review contribution to Swansea Futures	Chief Executive	Contribution reduced to salary/oncost only. Further review in 2010/11.	2010/11 £13k
2	PS	Review management and supervision costs across the Council	All	Each Directorate to develop proposals to achieve a £500k reduction in 2010/11. Further reductions will be needed in future years.	Target savings: 2010/11 £2.8m 2011/12 £2.9m 2012/13 £2.9m 2013/14 £2.9m
3	RMO	Waste collection	Environment	Proposals to be developed to achieve the Council's landfill targets and cost reductions, in relation to landfill tax reductions and infraction fine avoidance. Proposals involve rolling out in phases/alternate weekly collections following the introduction of 'plastic' kerbside recycling collections to all households.	Target savings: 2010/11 £150k 2011/12 £300k 2012/13 £450k 2013/14 £600k In addition to the above, significant extra costs will be avoided
4	RMO	Review bus subsidies	Environment	Proposals to reduce bus subsidies by removal of a number of subsidised services.	Target savings: 2010/11 £200k 2011/12 £200k 2012/13 £200k 2013/14 £200k
5	RMO	Street lighting	Environment	Proposals to turn off street lights to reduce energy consumption/costs.	Target savings: 2010/11 £100k 2011/12 £100k 2012/13 £100k 2013/14 £100k:

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
6	RMO	Review of resident parking charges	Environment	Proposals to review scheme with a view to introducing a charge for permits.	Target savings: 2011/12 £50k 2012/13 £50k 2013/14 £50k
7	RMO	Review consumer advice service	Environment	Investigate potential for reducing resources devoted to this activity.	Target savings: 2011/12 £20k 2012/13 £20k 2013/14 £20k
8	LM	Relocate Housing Options to Civic Centre	Housing	Analysis of financial and service impacts in progress. Potential saving in premises costs	Target savings: 2011/12 £100k 2012/13 £100k 2013/14 £100k
9	PR	Review provision of community centres and other community buildings	All	Potential building closures / transfers to voluntary groups. Avoidance of future maintenance issues	Cost avoidance
10	SR	Review Trade Union Facilities Agreement	All	Review existing agreement to achieve a reduced cost	Target savings: 10%
11	JS	Review requirements for producing statutory plans	All	Investigate potential for reducing resources devoted to this activity in the context of management and supervision savings targets.	See ref 2
12	PS	Investigate options for sharing service management with other public bodies	All	Various work initiated by the SWW Regional Partnership Forum is ongoing – examples include Joint Legal Services Project, Joint Architecture & Engineering Project and, Joint Waste Management Project.	To be assessed

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
13	PR	Relocate Business Centre	Regeneration	Lease expires in May 2012, however, the Centre is being used to deliver convergence projects such as Swansea Working which will not finish until 2013/14. Alternative accommodation would be required.	£57,000 could be saved on premises costs in 2013
14	PR	Review role of sustainable development team	Regeneration	Based on current demand and workload, it would prove considerably more expensive to buy this advice in from consultants. With prioritisation to cover only essential work, a saving of ½ a post could be achievable.	£15,000 could be saved in 2010/11
15	AJS	Consider options for providing support services	All	Review of all support services across the Council to be completed. Linked to management cost reductions.	Target savings: 10%
16	RMO	Review the highway maintenance framework agreement	Environment	Proposals to improve efficiency in delivering the highways service	Target savings: 2011/12 £50k 2012/13 £50k 2013/14 £50k
17	RP	Post 16 transport	Education	Need to consult on removal of post 16 transport funding.	Target savings: 2012/13 £118k 2013/14 £273k 2014/15 £327k
18	PS	Review Democratic & Scrutiny support arrangements	Chief Executive	Review to be completed.	To be assessed
19	RMO	Consider options for managing Council car parks	Environment/ Regeneration	Alternative management arrangements for car parks to improve efficiency and potential cost savings to be considered.	To be assessed.

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
20	AJS	Consider options for providing facilities services	Resources	See ref 15	To be assessed
21	AJS	Consider options for providing estates service	Resources	See ref 15.	To be assessed
22	RMO	Review car park charges	Environment/ Regeneration	Exploration of potential to vary/increase car park charging regime to increase income.	Target savings: 2011/12 £100k 2012/13 £100k 2013/14 £100k
23	AJS	Review training provision	All	Minimum service level to be considered.	Target savings: 2011/12 £50k 2012/13 £50k 2013/14 £50k
24	RMO	Review provision of public conveniences	Environment	Proposals to rationalise public conveniences to reduce costs.	Target savings: 2012/13 £50k 2013/14 £50k

B. UPDATE OF 2009/10 PLAN ITEMS

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
25	CM	Review Family Support Services	Education/ Social Services	Linked to review of Looked After Children and agreed restructuring of assessment and Care management Teams.	Cost avoidance
26	CM	Review arrangements for Looked After Children	Education/ Social Services	As above.	Cost avoidance
27	RP	Rationalise Taxi Utilisation	Education/ Social Services	Review of procurement and utilisation options to be completed.	Target savings: 2010/11 £300k 2011/12 £500k 2012/13 £700k 2013/14 £900k
28	RP	Review Catering/Cleaning Service:	Education		Cost avoidance:
		• Catering		Increase in school meal prices in September 2009 and 2010 together with greater marketing activity. Staff restaurant increasing charges or closure during 2010. Ongoing consideration of service delivery options.	2010/11 £50k 2011/12 £50k 2012/13 £50k 2013/14 £50k
		• Cleaning		Service delivery options under consideration including scoping out potential for outsourcing.	To be assessed
29		Implement Shared Services Review. Including:	Resources		
	LW	- PA/Sec/Admin		PA/secretaries review complete. Reductions to be considered as opportunities occur.	2010/11 £30k 2011/12 £60k
	MGT	- Service Finance Units		Review to be completed during 2010.	Reduction in

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
	MGT	- Primary Support Officers		Transfer to Resources Directorate implemented from October 2009.	management costs of £20k achieved
	JS	- Directorate Support		Reductions to be considered (minimum 20%).	Included in Management & Supervision targets
	JS	- Project Support		Reductions to be considered (minimum 20%).	
	SR	- HR Support		Reductions to be considered. *Above are linked to ref 15*	
30	RP	Review Local Authority Youth Support Services	Education/ Regeneration/ Social Services	Review of support for children with complex/acute needs in progress.	Cost avoidance
31	RP	External Challenge of Special Education Needs Support	Education	(i) Additional SEN costs for 2010 to be contained within One Education Strategy (ref 52 below). (ii) Ongoing discussions within SWAMWAC regarding regional collaboration to reduce costs in relation to Out of County placements and behavioural referrals; (iii) In 2010 further investigation of strategies to contain future SEN expenditure. (iv) Commission external review of whole SEN service	Costs contained within available budget Target of £300k to be set for schools to recycle SEN 1:1 funding in 2010/11
32	RP	External Scrutiny of Employment Training provision	Education	Review of income and expenditure ongoing. Estyn to review VFM aspect of service in 2010.	Efficiency

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
33	PR	Consider the creation of a Single Development Team	Regeneration	A new approach has been introduced via the Regeneration Programme Board which reports to the Strategic Development Forum. Project management methodology has been applied to all key development projects and this is being reported to the Corporate Management Team as a strategic programme board.	None
34	ID	APSE Review Grounds Maintenance Service	Regeneration	Review complete. Savings identified relate to more efficient use of machinery and the delivery of efficiencies in the staffing budgets through the adoption of a flexible working regime.	Target savings: 2010/11 £50k 2011/12 £100k 2012/13 £150k 2013/14 £150k
35	ID	Review implementation of Tourism Strategy	Regeneration	Action Plan and review of progress with the Tourism Strategy has been completed.	None
36	CM	Consider options for future organisational arrangements in respect of all direct Social Services provision	Social Services	Lead Officer has been identified. General approach and issues to be reported to Health, Social Care and Well Being Overview Board. Further research is being undertaken, e.g. social enterprises.	Cost avoidance
37	AF	Link business development, procurement and purchasing	Resources/Regeneration	Greater use of ALITO system proposed together with a review of Contract Procedure Rules. Information to be produced on where money is spent i.e. local or otherwise.	Efficiency
38	MN	Focus Apprenticeship work in one place	Education/Regeneration	Review in progress.	Efficiency
39	PH	Implement the Indoor Market plan	Regeneration	Survey of stakeholder views in progress together with a building condition survey. Essential works have been completed.	To be assessed

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
40	JS	Review consultation budget provision	Resources	Review in progress.	Minimum £7k saving
41	PR	Implement Leisure Services Project	Regeneration	Brynmill Library closed 2010. Tennis Centre brought forward for closure 2010/11. Glyn Vivian Art Gallery - Strategic Capital Investment Fund funding secured. Dylan Thomas Centre - review 2011/12. Next phase of library AMP underway.	2009/10 £30k 2010/11 £50k 2011/12 £100k 2010/11 £25k
42	PA	Implement Workforce Programme including:	All		
		- pay and grading		Allocation process complete; pay modelling in progress.	To be assessed
		- terms and conditions		Review in 2010.	To be assessed
		- headcount reduction		Reduction of 142 posts achieved in 2009/10; further planned in future years.	See 2010/11 budget proposals
		- flexible working		Review in 2010.	To be assessed
43	PS	Explore further options for Senior Management Re-organisation	Chief Executive	Heads of Service review reported to Cabinet on 11/02/10. Further review to be completed later in year.	Target savings: 2010/11 £300k 2011/12 £400k 2012/13 £400k 2013/14 £400k
44	PS	Review provision of Property based services	Chief Executive	Part of Heads of Service review.	See above

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
45	PS	Create an "Employee Review Group" to deliver headcount reduction by reviewing: - Posts following retirement - Turnover - Temporary appointments	All	Review Group met in early 2009/10 and agreed a broad strategy for each service.	See 2010/11 budget proposals Also see ref 42
46	PA	Review bonus payments and leave accrued when sick	Environment//Regeneration/Resources	Part of wider Terms & Conditions review to be completed as part of Pay & Gradings review.	Cost avoidance
47	MGT	All grant funded schemes should be presumed to end if grant ceases	All	Principle confirmed and implemented.	Cost avoidance
48	IJ	Training facilities should be reviewed across Education/Social Care and others with a view to consolidating at a single venue	All	Original 2007 report produced by Corporate Property to be updated. This is part of a wider review of training needs/resources to be completed by December 2010.	To be assessed
49	MGT	Continue with expenditure restrictions implemented in Oct'08	All	Restrictions continued and extended to include: - 6 month delay in filling posts - use of consultants authorised by Chief Executive - Director approval needed for a range of discretionary expenditures	Resulting budget savings reductions have partly offset service overspendings

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
50	SR	Review recruitment packages including: - Supplements - Building Control - Trading Standards - Legal	All	Reviews complete. Several supplements removed. Remaining ones to be incorporated into Pay & Grading review.	Target savings: 2011/12 £20k 2012/13 £20k 2013/14 £20k
51	RMO	Increase the flexible use of staff to achieve efficiencies	All	See Ref 72.	
52	BR	Treat whole education budget as one in financial strategy	Education	Principle implemented in 2010/11 budget process.	Additional spending needs in addition to significant unfunded services pressures to be contained within 2010/11 budget proposals
53	RB	Review Adult and Community learning provision	Education	Limited scope for net budget savings as most spending is grant funded. Administration costs to be further reviewed.	None
54	DT	Undertake review of corporate broadband provision including broadband service to schools	Education/Resources	Ongoing review of current contract. Potential collaboration options regarding future network provision with Education.	To be assessed
55	IJ	Consider regional collaboration in the areas of specialist advice and translation services	Education	Currently linking with Neath Port Talbot as part of shared service to explore potential for increased trading with other public sector organisations (e.g. Police) and other local authorities.	Target savings: 2011/12 £100k 2012/13 £100k 2013/14 £100k

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
56	JS	Review of grants to voluntary organisations	All	Review to be completed in 2010/11.	Target savings: 2011/12 £100k 2012/13 £100k 2013/14 £100k
57	LM	Consider the creation of a single travellers unit to co-ordinate and make efficient interventions	Environment/Educ/ Regeneration	Indications are that a single travellers unit is unlikely to be viable without additional cost. Savings unlikely to be identified.	Efficiency
58	RP	Review Education welfare service	Education	Part of YSS Review - see ref 30	
59	BG	Ensure the "landscape design team"/similar internal services are commissioned for all internal works to fully cover costs	All	Review in progress.	Avoidance of external cost
60	SD	Implement compliance with internal usage rules for Design print	Resources	Staff have been reminded of internal rules; options for providing this service to be considered.	Cost avoidance
61	BG	Consider regional working to improve nature conservation	Environment	Potential for regional bids for external funding identified as worth pursuing.	Cost avoidance
62	BG	Review staffing levels in Planning in response to a reduction in workload and reduced income levels	Environment	3.5 posts (including 1 Principal Officer) deleted (and 5% market supplement withdrawn).	2010/11 £117k 2011/12 £117k 2012/13 £117k 2013/14 £117k

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
63	MS	Review staffing levels in Building Control in response to a reduction in workload and reduced income levels	Environment	0.5 posts deleted. 1.0 posts held vacant	2010/11 £30k 2011/12 £30k 2012/13 £30k 2013/14 £30k
64	MS	Examine scope for Building Regulations to do other fee generating work	Environment	Additional income target in 09/10 but little scope for achieving further increases as staffing levels have been reduced.	2009/10 £10k
65	MS	Benchmark Environmental Health Services against best practice (i.e. workload per employee)	Environment	To be completed	
66	MS	Review funding of crucial crew event	Environment	Review complete and Council funding removed.	Target savings: 2010/11 £22k 2011/12 £22k 2012/13 £22k 2013/14 £22k
67	MS	Benchmark licensing service	Environment	To be completed	
68	DT	Consider the creation of a single Corporate Call Centre and option to link to Single Depot	Resources	Progress dependent on creation of Single Depot.	Target savings: 10%
69	AG	Review the noise service	Environment	Staffing reduction achieved. Overtime working / payment of premium rates also reviewed. No interest in cross boundary working by NPT.	

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
70	AG	Review funding approach to HMO licensing	Environment	Fee levels reviewed.	2011/12 £13k 2012/13 £13k 2013/14 £13k
71	AG	Consider market test of pest control services	Environment	Review complete and new charges agreed.	£5k pa from 2010/11
72	RMO	Create a single street scene service and broader area based teams	Environment/ Regeneration	Programme Board for Streetscene created and reporting to SPB. Meeting ongoing with TUs for commencing flexible Streetscene working in street cleansing.	Target savings 2011/12 £300k 2012/13 £300k 2013/14 £300k
73	AG	Trade refuse service to be self-funding	Environment	The pricing structure has been revised which will mean increased residual waste charges and the introduction of relatively modest changes for recyclates. This is to encourage recycling but to maintain the Council's customer base.	2010/11 £100k 2011/12 £100k 2012/13 £100k 2013/14 £100k
74	CH	Complete APSE review of Central Transport Unit	Environment	Review complete. Action Plan being prepared. Excludes SEN related expenditure	Target savings: 2010/11 £100k 2011/12 £200k 2012/13 £200k 2013/14 £200k
75	CH	Plan highways maintenance programme to offset cost increases	Environment	Potential Invest to Save options to be explored where opportunities exist.	Cost avoidance
76	CH	Review street lighting provision to achieve £0.5m saving whilst reviewing Invest to Save opportunities	Environment	See ref no. 5.	

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
77	CH	Revise charges for skips/scaffolding and employ enforcement officer	Environment	New charges agreed.	£20k pa from 2010/11
78	CV	Agree forward arrangements for drainage team, in light of funding reductions	Environment	No potential to generate further income as drainage team disbanded.	£280k loss of income
79	CV	Post implementation review of civil parking regime	Environment	Additional Invest to Save opportunities to be considered. Use of CCTV to be investigated.	Target savings of £50k - £100k pa
80	CV	Consider parking regime at Sailbridge Site	Environment/ Regeneration	New charges proposed.	Marginal effect only and incorporated with overall car parking income target
81	MN	Revise inspection regime in CBS	Regeneration	Reductions agreed.	£30k saving pa to Housing Revenue Account
82	MN	Initiate APSE review of CBS	Regeneration	Review complete.	Included in Management & Supervision targets. Partly relates to HRA
83	BG/ CV	Promote internal usage of Council facilities	All	Linked to ref no.34.	
84	LW	Create single Council wide Marketing Team	All	Review in progress. Savings identified subject to consideration of implications.	Target saving of £200k pa from 2010/11

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
85	ID	Review and revise approach to all special events	All	Protocol and action plan to be developed based on a risk reduction strategy.	None – risk reduction
86	CH	Promote use of Council vehicles for advertising	All	Review to be completed in 2010.	Target saving of £20k pa from 2010/11
87	ID	Review provision of Tourist Information Centre	Regeneration	Negotiations with National Express with regard to ticket sales agreed to be provided by the Grand Theatre Box Office. Relocation options still to be evaluated as part of the City Centre Framework – not an option for including the TIC in the Quadrant Bus Station redevelopment.	Target savings: 2010/11 £5k 2011/12 £5k 2012/13 £5k 2013/14 £5k
88	ID	Consider charging for family history service	Regeneration	New charges agreed.	£5k pa from 2010/11
89	PH	Review future of Swansea Vale initiative	Regeneration	A review of the current Development Strategy for the area is being undertaken by Atkins and the first stage report which sets out the appraisal and land use options has been completed.	To be assessed Capital receipts issue
90	DMD	Consider regional specialist legal services	Resources	Potential for Joint Legal Service for South West Wales to be investigated.	To be assessed
91	DMD	Review role and functions of legal Business Support Unit	Resources	Initial review complete. To be further considered in the context of support services review.	Target savings: 10%
92	SD	Introduce spend to save on energy management	Resources	First phase of improvements identified. Future phases to be identified. Potential saving already	Cost avoidance

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
				built into budgets.	
93	SD	Consider establishment of joint design print with NPT	Resources	Review in progress. Opportunities for joint tendering discussed with neighbouring authorities.	To be assessed
94	AF	Adopt a corporate target for procurement savings	Resources	Target achieved in 2009/10. New target agreed for 2010/11.	Target savings: 2010/11 £300k 2011/12 £300k 2012/13 £300k 2013/14 £300k
95	DT	Review ICT client function alongside ICT support to Education	Resources/ Education	Options to make efficiency savings have been identified and are being further investigated with the Corporate Director (Education).	Target savings: 2010/11 £96k 2011/12 £96k 2012/13 £96k 2013/14 £96k
96	DT	Review of options around current IT Contract terms and provisions	Resources	Review in progress.	Target savings: 2010/11 £50k 2011/12 £50k 2012/13 £50k 2013/14 £50k
97	DD	Integrate day services for Older People with other community facilities	Social Services	The Mumbles pilot 'All Together Now' is being progressed. A second local co-ordination post is being established. A saving of £50k has been identified for 2010/11 which will increase to £100k for 2001/12.	Target savings: 2010/11 £50k 2011/12 £100k 2012/13 £100k 2013/14 £100k
98	DD	Ensure appropriate level of payment for the Joint	Social Services	It is recognised that costs have increased but a commitment by partners has not yet been confirmed	This activity relates to cost containment

REF (1)	LEAD (2)	AREA (3)	DIRECTORATE (4)	STATUS (5)	FINANCIAL TARGET / IMPACT (6)
		Equipment Service by partners		in terms of the total contribution. Letters have been sent to all partners. Monthly meetings continue to take place. The situation is reviewed by the Corporate Director (Social Services).	rather than a saving
99	ID	Review grant to National Museum	Regeneration	Review in progress and initial discussion held with the National Museum in relation to contribution to the cost of car park management.	Potential saving of £540k
100	ID	Review 5 centre charges, museums education to schools delegated budget	Regeneration/ Education	Initial review undertaken – limited scope to increase charges to schools beyond the current level.	None
101	ID	Review contribution to LC	Regeneration	Review complete and savings have been included within the MTFP.	Target savings: 2010/11 £100k 2011/12 £150k 2012/13 £200k 2013/14 £250k
102	AF	Consider Local Authorities power to trade	All	Review in progress.	To be assessed

Statutory Resolution 2010/11

Report of the Section 151 Officer

Council 22nd February 2010

STATUTORY RESOLUTION – RESOLUTIONS TO BE MADE IN ACCORDANCE WITH THE REGULATIONS IN THE SETTING OF THE COUNCIL TAX 2010/2011

(1) **THAT** the Council notes and adopts the statutory resolutions set out below.

(2) **THAT** it be noted that at its meeting on 3th December 2009 the Council calculated the following amounts for the year 2010/2011 in accordance with Regulations made under Section 33(5) of the Local Government Finance Act 1992 -

a) 86,504 being the amount calculated by the Council, in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) (Wales) Regulations 1995, as amended, as its Council Tax base for the year.

b) Parts of the Council's Area -

Bishopston	1,908
Clydach	2,504
Gorseinon	2,965
Gowerton	1,960
Grovesend	398
Ilston	314
Killay	2,077
Llangennith, Llanmadoc & Cheriton	483
Llangyfelach	943
Llanrhidian Higher	2,249
Llanrhidian Lower	300
Llwchwr	3,130
Mawr	724
Mumbles	9,502
Penllergaer	1,137
Pennard	1,451
Penrice	421
Pontarddulais	2,061
Pontlliw	969
Port Eynon	391
Reynoldston	290
Rhossilli	187
Upper Killay	562

being the amounts calculated by the Council, in accordance with Regulation 6 of the Regulations, as the amounts of its Council Tax base for dwellings in those parts of its area to which special items relate.

(3) **THAT** the following amounts be now calculated by the Council for the year 2010/2011 in accordance with Section 32 to 36 of the Local Government Finance Act 1992 -

(a)	£634,985,678	being the aggregate of the amounts which the Council estimates for the items set out in Sections 32(2)(a) to (d) of the Act.
(b)	£249,636,160	being the aggregate of the amounts which the Council estimates for the items set out in Sections 32(3)(a), 32(3)(c) and 32(3a) of the Act.
(c)	£ 385,349,518	being the amount by which the aggregate at (3)(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year.
(d)	£301,648,928	being the aggregate of the sums which the Council estimates will be payable for the year into its Council Fund in respect of redistributed non-domestic rates, and revenue support grant less discretionary Non Domestic Rate relief.
(e)	£967.59	being the amount at (3)(c) above less the amount at (3)(d) above, all divided by the amount at (2)(a) above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its Council Tax for the year.
(f)	£801,212	being the aggregate amount of all special items referred to in Section 34(1) of the Act.
(g)	£958.33	being the amount at (3)(e) above less the result given by dividing the amount at (3)(f) above by the amount at (2)(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special items relate.

(h) Parts of the Council's Area -

Bishopston	974.41
Clydach	977.62
Gorseinon	985.14
Gowerton	976.13
Grovesend & Waungron	970.89
Ilston	967.08
Killay	970.46
Llangennith, Llanmadoc & Cheriton	974.69
Llangyfelach	977.42
Llanrhidian Higher	1000.57
Llanrhidian Lower	968.33
Llwchwr	980.88
Mawr	1001.43
Mumbles	970.29
Penllergaer	990.87
Pennard	988.65
Penrice	982.08
Pontarddulais	996.66
Pontlliw	992.67
Port Eynon	972.40
Reynoldston	981.09
Rhossili	969.88
Upper Killay	990.36

being the amounts given by adding to the amount at (3)(g) above the amounts of the special items relating to dwellings in those parts of the Council's area mentioned above divided in each case by the amount at (2)(b) above, calculated by the Council, in accordance with Section 34(3) of the Act, as the basic amounts of its Council Tax for the year for dwellings in those parts of its area to which one or more special items relate.

(l) Parts of the Council's Area -

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £	Band I £
Bishopston	649.61	757.87	866.14	974.41	1,190.94	1,407.48	1,624.01	1,948.82	2,273.62
Clydach	651.75	760.37	868.99	977.62	1,194.87	1,412.12	1,629.37	1,955.24	2,281.11
Gorseinon	656.76	766.22	875.68	985.14	1,204.06	1,422.98	1,641.90	1,970.29	2,298.67
Gowerton	650.75	759.21	867.67	976.13	1,193.05	1,409.97	1,626.88	1,952.26	2,277.64
Grovesend & Waungron	647.26	755.14	863.02	970.89	1,186.65	1,402.40	1,618.15	1,941.79	2,265.42
Ilston	644.72	752.17	859.63	967.08	1,181.99	1,396.90	1,611.80	1,934.16	2,256.52
Killay	646.98	754.80	862.63	970.46	1,186.12	1,401.78	1,617.44	1,940.93	2,264.41
Llangennith, Llanmadoc & Cheriton	649.79	758.09	866.39	974.69	1,191.28	1,407.88	1,624.48	1,949.37	2,274.27
Llangyfelach	651.61	760.21	868.82	977.42	1,194.62	1,411.83	1,629.03	1,954.84	2,280.64
Llanrhidian Higher	667.05	778.22	889.39	1000.57	1,222.92	1,445.27	1,667.61	2,001.14	2,334.66
Llanrhidian Lower	645.55	753.15	860.74	968.33	1,183.51	1,398.70	1,613.88	1,936.66	2,259.44
Llwchwr	653.92	762.91	871.89	980.88	1,198.85	1,416.82	1,634.80	1,961.76	2,288.72
Mawr	667.62	778.89	890.16	1001.43	1,223.97	1,446.51	1,669.05	2,002.86	2,336.67
Mumbles	646.86	754.67	862.48	970.29	1,185.92	1,401.54	1,617.16	1,940.59	2,264.02
Penllergaer	660.58	770.68	880.77	990.87	1,211.07	1,431.26	1,651.45	1,981.74	2,312.03
Pennard	659.10	768.95	878.80	988.65	1,208.35	1,428.06	1,647.76	1,977.31	2,306.86
Penrice	654.72	763.84	872.96	982.08	1,200.32	1,418.56	1,636.80	1,964.17	2,291.53
Pontarddulais	664.44	775.18	885.92	996.66	1,218.14	1,439.62	1,661.10	1,993.32	2,325.54
Pontlliw	661.78	772.08	882.38	992.67	1,213.27	1,433.86	1,654.46	1,985.35	2,316.24
Port Eynon	648.26	756.31	864.35	972.40	1,188.48	1,404.57	1,620.66	1,944.79	2,268.93
Reynoldston	654.06	763.07	872.08	981.09	1,199.11	1,417.13	1,635.15	1,962.18	2,289.21
Rhossili	646.59	754.35	862.12	969.88	1,185.41	1,400.94	1,616.47	1,939.76	2,263.06
Upper Killay	660.24	770.28	880.32	990.36	1,210.44	1,430.52	1,650.60	1,980.72	2,310.84
All other parts of the Council area	638.89	745.37	851.85	958.33	1,171.29	1,384.25	1,597.22	1,916.66	2,236.11

being the amounts given by multiplying the amounts at (3)(g) and (3)(h) above by the number which, in the population set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of the categories of dwellings listed in the different valuation bands.

(4) **THAT** it be noted that for the year 2010/2011 the South Wales Police Authority have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwelling shown below -

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £	Band I £
South Wales Police Authority	102.44	119.52	136.59	153.67	187.81	221.96	256.11	307.33	358.56

(5) **THAT** having calculated the aggregate in each case of the amounts at (3)(I) and (4) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2010/2011 for each of the categories of dwelling shown below –

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £	Band I £
Bishopston	752.05	877.40	1,002.73	1,128.08	1,378.76	1,629.44	1,880.13	2,256.15	2,632.18
Clydach	754.19	879.89	1,005.59	1,131.29	1,382.68	1,634.08	1,885.48	2,262.57	2,639.67
Gorseinon	759.20	885.74	1,012.27	1,138.81	1,391.87	1,644.94	1,898.01	2,277.61	2,657.22
Gowerton	753.19	878.73	1,004.26	1,129.80	1,380.86	1,631.93	1,882.99	2,259.59	2,636.20
Grovesend & Waungron	749.70	874.66	999.60	1,124.56	1,374.45	1,624.36	1,874.26	2,249.11	2,623.97
Ilston	747.16	871.69	996.22	1,120.75	1,369.80	1,618.85	1,867.91	2,241.49	2,615.08
Killay	749.41	874.32	999.22	1,124.13	1,373.93	1,623.74	1,873.54	2,248.25	2,622.97
Llangennith, Llanmadoc & Cheriton	752.23	877.61	1,002.98	1,128.36	1,379.10	1,629.85	1,880.59	2,256.71	2,632.84
Llangyfelach	754.05	879.73	1,005.41	1,131.09	1,382.43	1,633.79	1,885.14	2,262.17	2,639.21
Llanrhidian Higher	769.49	897.74	1,025.99	1,154.24	1,410.73	1,667.23	1,923.73	2,308.47	2,693.22
Llanrhidian Lower	747.99	872.67	997.33	1,122.00	1,371.32	1,620.66	1,869.99	2,243.99	2,618.00
Llwchwr	756.36	882.43	1,008.48	1,134.55	1,386.66	1,638.79	1,890.91	2,269.09	2,647.28
Mawr	770.06	898.41	1,026.75	1,155.10	1,411.78	1,668.47	1,925.16	2,310.19	2,695.23
Mumbles	749.30	874.19	999.07	1,123.96	1,373.72	1,623.49	1,873.26	2,247.91	2,622.57
Penllergaer	763.02	890.20	1,017.36	1,144.54	1,398.87	1,653.22	1,907.56	2,289.07	2,670.59
Pennard	761.54	888.47	1,015.39	1,142.32	1,396.16	1,650.01	1,903.86	2,284.63	2,665.41
Penrice	757.16	883.36	1,009.55	1,135.75	1,388.13	1,640.52	1,892.91	2,271.49	2,650.08
Pontarddulais	766.88	894.70	1,022.51	1,150.33	1,405.95	1,661.58	1,917.21	2,300.65	2,684.10
Pontlliw	764.22	891.60	1,018.96	1,146.34	1,401.07	1,655.82	1,910.56	2,292.67	2,674.79
Port Eynon	750.71	875.83	1,000.95	1,126.07	1,376.30	1,626.54	1,876.78	2,252.13	2,627.49
Reynoldston	756.50	882.59	1,008.67	1,134.76	1,386.92	1,639.09	1,891.26	2,269.51	2,647.77
Rhossili	749.03	873.87	998.71	1,123.55	1,373.22	1,622.90	1,872.58	2,247.09	2,621.61
Upper Killay	762.68	889.80	1,016.91	1,144.03	1,398.25	1,652.48	1,906.71	2,288.05	2,669.40
All other parts of the Council area	741.33	864.89	988.44	1,112.00	1,359.10	1,606.21	1,853.33	2,223.99	2,594.67

Capital Budget & Programme 2009/10 – 2013/14

Report of the Section 151 Officer

Extraordinary Council – 22nd February 2010

CAPITAL BUDGET & PROGRAMME 2009/10 – 2013/14

Purpose:	This report proposes a capital budget for 2009/10 - 2013/14
Policy framework:	None
Reason for decision:	To agree a revised budget for 2009/10 and a budget for 2010/11 – 2013/14
Consultation:	Cabinet Members & Corporate Management Team
Recommendation:	The revised budget for 2009/10 and budget 2010/11 – 2013/14 be approved.

1 Introduction

This report details:

- Revised capital expenditure and financing proposals for 2009/10 and
- Capital expenditure and financing proposals for 2010/11 – 2013/14
- The potential implications of a significant reduction in Welsh Assembly Government Support in future years

Capital spending and funding proposals in relation to the Housing Revenue Account (HRA) are detailed in a separate report to be considered by Council on 22nd February 2010.

The budget proposals are detailed as follows:

Appendix A Summary of capital expenditure and financing

Appendix B Material changes to the original 2009/10 programme

Appendix C A detailed breakdown of the programme by portfolio

2 Capital Budget 2009/10 – 2013/14

2.1 The proposed programme and financing is summarised in appendix A. Spending in the current year will be £58.507m, an increase of £26.869m over the original estimate of £31.638m. This increase is mainly due to the addition of externally (mainly grant) funded schemes after Council approved the capital budget in February 2009. Material changes are summarised in appendix B. The main points in relation to the capital budget proposals are as follows:

Civic Centre

2.2 There is a saving on the original budget provision. This will be used to fund staff accommodation moves as a result of the Guildhall works.

Guildhall refurbishment

2.3 The phased scheme as approved by Council is progressing as planned.

ISIS development

2.4 The capital budget includes the cost of project work as reported to Cabinet on 28th January 2010.

Quadrant Interchange Scheme

An award of Convergence Grant and Transport Grant allowed this scheme to commence in 2009/10. However, unavoidable delays in progressing the scheme are likely to result in additional costs and potential grant funding shortfalls in future years. A full report will be made to Cabinet when the financial implications are known.

No additional budget provision has been made at this time.

Waste disposal

2.5 The budget provides for the current programme of works at Tir John and further remediation works in future years. The long term financial implications for waste disposal are not known at this time. Cabinet on 29th October 2009 was informed that there was a budget shortfall of £2m to deliver Cell 16 but options are being considered to reduce the forecast cost. The development of Cell 17 will be considered after the current programme has been completed. There is no budget for Cell 17 in the attached proposals.

Quality in Education 2020 (QED 2020)

2.6 This initiative has been progressed during the year and a first phase of proposals are currently being considered by the Welsh Assembly Government. In addition, a significant grant has been received to refurbish Cefn Hengoed school – see below. This grant offer was conditional on a 20% Council contribution and it is likely that future grant offers will require at least a similar level of contribution.

Subject to the risks detailed in this report, QED 2020 remains the Council's top priority in terms of any available capital resources. However, the financing of future programmes of work remains extremely challenging and consideration has been given to options for financing future proposals.

Proposals and associated business cases will be prepared over the coming months and will entail:

- the identification of specific costed proposals including any match funding requirements as mentioned above

- the identification of specific sites for sale

- a calculation for 2010/11 and each subsequent year of expenditures, receipts, shortfalls and surpluses arising from the above.

Subject to the agreement of specific proposals, it is proposed that short term unsupported borrowing be approved to fund any temporary shortfalls pending the sale of Education sites. This :

- represents a departure from the existing principle that no further unsupported borrowing is undertaken and is clearly dependent on the amounts and timescales involved and

- commits the Council to using specific receipts to pay off temporary unsupported borrowing and

- is to manage cash flows in the short term i.e. additional unsupported borrowing is not a long term funding solution

Cefn Hengoed refurbishment

2.7 The Authority has been awarded £8m of Transitional Funding for Schools grant for the refurbishment of Cefn Hengoed school. The scheme is being finalised and a FPR7 report will be presented to Cabinet for approval in the near future.

City Centre Redevelopment

2.8 The Authority has accepted Convergence Grant for a redevelopment scheme comprising :

- City Centre Core Phase 2 and 3
- River Walkway Phase 1,2 and 3
- Boulevard Phase 1 and 2
- PDF grants to developers
- Building enhancement grants

Disabled Facilities Grants (DFGs)

2.9 Whilst the attached proposals provide for current levels of spending in future years, it is likely that expenditure will need to be significantly reduced to match the resources available to the Council - see paragraph 4.2. It will not be possible to commit spending in 2011/12 until future funding levels are known.

Capital maintenance (property and infrastructure)

2.10 Similarly, it is likely that spending on capital maintenance will need to be significantly reduced to match resources available to the Council and it will not be possible to commit spending in 2011/12 until future funding levels are known.

As previously, budgets will need to be carefully prioritised. This remains a significant risk.

The WAG Road Maintenance grant for capital maintenance is likely to be reduced by 70% for 2010/11.

Oystermouth Castle Improvement works

2.11 The Authority is expecting confirmation early in 2010/11 from the Heritage Lottery Fund that the scheme can proceed. A FPR7 report will then be presented to Cabinet with details for approval.

Glyn Vivian Art Gallery (GVAG) refurbishment works

2.12 The Council has developed a scheme, estimated at £9m for the refurbishment of the GVAG. Having previously earmarked £500k within the capital programme and secured, in principle, a further £2m from the Arts Council Wales, a bid was submitted to the Strategic Capital Investment Fund (SCIF) for the remaining £6.5m. The Assembly has approved an allocation of £3.5m from SCIF but this leaves the project with a £3m shortfall. The Authority is considering options including bids to bridge the funding gap and containing the expenditure within the overall sum available.

Contingency Fund

2.13 As in previous years, a contingency budget has been provided in each year to meet unforeseen costs.

Other grant funded schemes.

2.14 Other significant schemes agreed and commenced in 2009/10 were:

- City Centre redevelopment River Walkway Phase 1
- School Building Improvement Grant schemes annual allocation
- Hafod renewal area grant annual allocation

3 Financing of Capital Budget 2009/10 – 2013/14

3.1 The budget monitoring report to Cabinet on 19 November 2009 highlighted a forecast shortfall in capital receipts over the 4 year programme. This position has now improved due to the sale of part of the Melyn Mynach site in Gorseinon to Asda.

3.2 Subject to any future reduction in Welsh Assembly Government funding (see paragraph 4.2 below) , the attached proposals can be fully financed by:

a) Capital grants and RSG support for borrowing provided by the Welsh Assembly Government.

b) Grants and contributions provided by other bodies

c) The Council's own resources (unsupported borrowing and capital receipts)

3.3 Previous reports to Council have highlighted the significant level of unsupported borrowing and in particular, the advice of the Section 151 officer that further unsupported borrowing could not be considered unless the resulting interest and principal repayments could be financed from current and future revenue budgets. Subject to consideration of short term borrowing requirements for QED 2020 cashflow (see paragraph 2.6) this advice remains unchanged and as such, the attached budget proposals do not include any unsupported borrowing proposals over and above the £79.823m previously agreed.

4. Risks

4.1 As noted in this report there are significant risks which may require a revision of the programme. In particular:

- a likely reduction in Assembly funding from 2011/12 – see paragraph 4.2
- additional costs / grant shortfalls in relation to the Quadrant Interchange Scheme
- capital costs arising from future waste disposal strategies
- urgent capital maintenance requirements
- unforeseen costs e.g. failure of retaining walls

4.2 The implications of the Welsh Assembly Government reducing its support in 2011/12 and subsequent years are not known at this time. However, it is clear that a significant reduction will occur in 2011/12 - 2013/14, possibly as much as 50% over a three year period. Such a reduction would result in an annual loss of Assembly support of £7m or more. Given the bleak outlook for revenue budget spending and financing it is extremely unlikely that such a loss of funding could be made up from the Council's own resources. This will result in an inevitable reduction in the attached proposals – in particular future funding available for capital maintenance and DFGs.

5. Legal implications

5.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty.

6. Prudential Code

6.1 Under the Local Government Act 2003 and subsequent regulations, a local authority is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when setting its budget and must determine and keep under review how much it can afford to borrow.

6.2 A further report on the agenda will detail what is required under the requirement of the Code and set out in detail Prudential Borrowing Indicators for 2010/11 and subsequent years.

7. Recommendation

The revised budget for 2009/10 and budget 2010/11 – 2013/14 be approved.

Contact officer : Mike Trubey, Head of Finance
Telephone no. : 636391
Background papers: None

CAPITAL BUDGET AND FINANCING 2009/10 - 2013/14

PORTFOLIO BUDGET	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Business Improvement and Efficiency	1,700	394			
Finance	1,475	3,342	1,500	1,500	1,500
Education	9,796	5,193	4,000	1,500	
Community Regeneration	536	10	0	0	0
Culture, Recreation & Tourism	2,248	523	34	12	26
Economic and Strategic Development	2,608	780	6	6	8
Environment	23,168	10,283	3,752	3,352	3,352
Social Services	289				
Housing - General Fund	7,105	6,800	5,200	5,200	5,200
- Corporate Building Services	9,582	10,123	9,188	7,965	4,528
TOTAL BUDGET	**58,507**	**37,448**	**23,680**	**19,535**	**14,614**

FINANCED BY:	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Loans					
Supported Borrowing	11,021	11,003	11,003	11,003	11,003
Unsupported Borrowing	9,172	1,074	3,412	3,823	-2,314
Grants					
General Capital grant	3,667	3,668	3,668	3,668	3,668
Other Welsh Assembly grants	16,434	8,011	3,709	1,001	2
European Grants (including Convergence)	3,189	2,083	192		
Other grants	1,909	123	34	12	26
Contributions	4,739	300			
Capital Receipts	4,659	11,176	1,659	25	2,225
Reserves					
General Fund	1,935	10	3	3	4
Financing Adjustment	1,782				
TOTAL FINANCING	**58,507**	**37,448**	**23,680**	**19,535**	**14,614**

Appendix B

MATERIAL CHANGES TO THE ORIGINAL 2009/10 PROGRAMME

Scheme	Source Of Funding	2009/10 Change £000
Economic and Strategic Development		
Waterfront Phase 1 River Tawe Walkway	Grant	796
SA1 Art	Grant	165
Building Enhancements	Grant	25
Finance		
Asda scheme	Sales proceeds	690
Education		
Gowerton Comprehensive Catering Suite	Grant	138
School Building Improvement Fund (annual programme)	Grant	1,732
School Building Improvement Fund (transitional programme)	Grant	1,100
Early Years Grant	Grant	232
Flying Start Capital Grant	Grant	310
Sprinklers In Schools	Grant	680
Pontarddulais Primary Early Years Provision	Contribution	100
Housing (General Fund)		
Hafod Renewal Area Grant	Grant	1,800
Renewal Areas Energy Efficiency Grant	Grant	50
Housing (Corporate Building Services)		
Security measures - various schools	Grant	62
Community Regeneration		
Youth Service	Grant	222
Purchase of Play Bus	Grant	160
Culture, Recreation & Tourism		
Play Facilities/Fitness Trail	Grant	73
Park Play Facility Improvements	Grant	333
Brynhyfryd Library Refurbishment	Grant	120
Gowerton Library Refurbishment	Grant	72
Environment		
Transport Grant Schemes	Grant	6,402
Local Road Safety Schemes	Grant	323
Local Road Maintenance schemes	Grant	890
Quadrant Interchange	Grant	3,089
Purchase of Recycling Vehicles	Grant	353
City Centre Transport Model	Grant	50
Delayed Spending From 2008/09 - All Portfolios	Various	10,761
Delayed Spending Into 2009/10 - All Portfolios	Various	-6,017
Other Minor Changes	Various	2,158
TOTAL MATERIAL CHANGES		**26,869**

CAPITAL PROGRAMME 2009/2010 - 2013/2014

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
BUSINESS IMPROVEMENT AND EFFICIENCY					
New library/Civic Centre Scheme	618				
ISIS Payroll Development Scheme	1,082	394			
Total	**1,700**	**394**	**0**	**0**	**0**
FINANCE					
Corporate Contingency Fund	710	1,500	1,500	1,500	1,500
Project Feasibility Studies	75	200			
Asda scheme	690	1,642			
Total	**1,475**	**3,342**	**1,500**	**1,500**	**1,500**
EDUCATION					
Education General Schemes	73				
Primary Schools Schemes	1,102				
Primary Schools re-organisation programme	100	500			
Secondary Schools Schemes	2,876				
Cefn Hengoed refurbishment	500	4,000	4,000	1,500	
Special Education Schemes	501				
School Building Improvement Grant Schemes	4,644	693			
Total	**9,796**	**5,193**	**4,000**	**1,500**	**0**
COMMUNITY REGENERATION					
Youth Clubs/Service	287				
Community Regeneration Programme	224	10			
Other Community Building Schemes	25				
Total	**536**	**10**	**0**	**0**	**0**

Appendix C

CAPITAL PROGRAMME 2009/2010 - 2013/2014

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
CULTURE, RECREATION & TOURISM					
Glyn Vivian Refurbishment(match funding)	447				
Library Service Schemes	248				
Leisure Centres Schemes	122				
Liberty Stadium(retentions)	216				
Swansea Leisure Centre(retentions)	312				
Parks/Playing Field Schemes	775	123	34	12	26
Oystermouth Castle Restoration(match funding)	128	400			
Total	**2,248**	**523**	**34**	**12**	**26**
ECONOMIC AND STRATEGIC DEVELOPMENT					
General Redevelopment Schemes	128				
City Centre Schemes	357				
City Centre - Phase 1 River Walkway	925	180	6	6	8
YIM & White Rock Development	199				
Swansea Vale Schemes	662	600			
Environmental Improvement Schemes	40				
Grant improvement Areas Schemes(retentions)	7				
Environmental Services Schemes	24				
Market Refurbishment	266				
Total	**2,608**	**780**	**6**	**6**	**8**

CAPITAL PROGRAMME 2009/2010 - 2013/2014

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
ENVIRONMENT					
Transport Grant Programme Minor Schemes/retentions	1,618				
Express Bus Route Landore	702				
Quadrant Interchange	5,732	4,131	400		
Metro Morriston/Mumbles Road	2,025				
Highways / other Infrastructure capital maintenance	2,940	3,280	3,280	3,280	3,280
Members Highways Improvements allocation	79	72	72	72	72
Structural Maintenance Roads Schemes	1,130				
Structural Maintenance Bridges & Walls Schemes	646	650			
Street Lighting Schemes	586	100			
Road Safety/Traffic Schemes	371				
Other Highway Schemes	380				
Bus Facility Schemes	46				
Coast Protection/Land Drainage Schemes	165				
Environmental/Landscaping Improvement Schemes	13				
Cemeteries/Crematorium	8				
Pollution Control	82				
Waste Disposal Schemes	675	1,200			
Tir John Phases 1 & 2	5,503	850			
Foreshore & Marina Schemes	447				
Other County Building Schemes	20				
Total	**23,168**	**10,283**	**3,752**	**3,352**	**3,352**

CAPITAL PROGRAMME 2009/2010 - 2013/2014

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
SOCIAL SERVICES					
Children and Family Services Schemes	16				
Adult Services Schemes	273				
Total	**289**	**0**	**0**	**0**	**0**
HOUSING - GENERAL FUND					
Disabled Facilities Grants / Improvement Grants	4,775	5,200	5,200	5,200	5,200
Hafod Renewal Area Schemes	2,330	1,600			
Total	**7,105**	**6,800**	**5,200**	**5,200**	**5,200**
CORPORATE BUILDING SERVICES					
Building Capital Maintenance Schemes	5,292	3,851	3,500	3,500	4,000
Guildhall Refurbishment - Phase 2 Part 2	1,326				
Guildhall Refurbishment - Phase 3 Part 2	2,616	1,200			
Guildhall Refurbishment - future phases		4,708	5,473	4,420	528
Feasibility study Penllergaer	48				
Relocation Costs	300	364	215	45	
Total	**9,582**	**10,123**	**9,188**	**7,965**	**4,528**

Appendix C

Housing Revenue Account (HRA) Revenue Budget 2010/11 and Capital Budget 2010/11 – 2012/13

Report of the Section 151 Officer and the Director of Regeneration and Housing

Extraordinary Council – 22nd February 2010

HOUSING REVENUE ACCOUNT – REVENUE BUDGET 2010/11 AND CAPITAL BUDGET 2010/11 TO 2012/13

Summary

Purpose:	This report proposes a Revenue Budget 2010/11, a Capital Budget 2010/11 to 2012/13 and a rent increase for properties within the Housing Revenue Account.
Policy Framework:	None.
Reason for Decision:	To agree a revenue and capital budget as indicated and a rent increase for 2010/11.
Consultation:	Cabinet Members, Finance, & Legal
Recommendation:	The following budget proposals be approved: (a) In line with the Welsh Assembly Government guideline, to increase rents by an average of £1.12 per week (average of 1.8%) over a 50 week rent year as detailed in section 2. (b) Continue the policy of rent harmonisation as detailed in section 3. (c) Approve the increase for fees, charges and allowances as outlined in section 4. (d) Approve the revenue budget and capital programme as detailed in section 2 and 6 and appendix.

This report is in 6 sections as follows:-

Section 1	*Projected Revenue Outturn 2009/10*
Section 2	*Revenue Estimate 2010/11*
Section 3	*Rent Harmonisation proposals*
Section 4	*Proposed Fees, Charges and Allowances*
Section 5	*Projected Capital Outturn 2009/10*
Section 6	*3 year Capital Programme 2010/11 – 2012/13*

SECTION 1

Projected Revenue Outturn 2009/10

1.1 Table A in the Appendix shows a summary Housing Revenue Account (HRA) for the projection for 2009/10 and proposed estimate for 2010/11.

1.2 The original budget for this year was based on a deficit of £500k, which would be funded from balances. The revised forecast anticipates an increased transfer from balances of £957k ie an overspend of £457k compared to the original budget.

1.3 The main variances from the original estimate for 2009/10 are:

- A transfer of £840k from reserves was approved during the year to fund an increased level of painting and repairs prior to painting. This is no longer required as the extra expenditure can be funded from the underspends highlighted below. However, a transfer of £850k is required to part fund an overspend on tenant adaptations last year.
- A projected underspend on staffing budgets of £500k. This is due to the reduced pay award, planned delays in filling posts, and staffing reviews.
- A projected underspend on repairs and maintenance of £500k, mainly due to a reduction in day to day maintenance requests.
- A minor estimated reduction in the housing subsidy payable to the Welsh Assembly Government of £150k.
- A forecast increase in rent income of £100k.
- Reduced interest receipts of £100k due to lower interest rates.

SECTION 2

Revenue Estimate 2010/11

2.1 The production of the annual Housing Revenue Account estimate is heavily impacted by the control that the Welsh Assembly Government (WAG) has over the resources available to the HRA. The control is exercised through the use of the Housing Subsidy system and the setting of guideline rents on the revenue account and through the allocation of the Major Repairs Allowance (MRA) on capital investment.

2.2 WAG guideline rents are "theoretical" and authorities are free to charge higher or lower real rents. In practice this freedom is highly constrained via the Housing Subsidy calculation, and if rents are increased above the guideline, the authority only retains about 30% of the increase. To ensure that the authority and tenants maximise the benefit from the subsidy system it is recommended that the WAG guideline rent increase be adopted.

2.3 The proposed budget for 2010/11 is based on the following assumptions:

- An average rent increase of 1.8%;
- An increase in management and maintenance allowances of 3.8%;
- Inflationary increases in management and maintenance costs of 1%;
- Efficiency savings on management costs of 1%;

2.4 Based on these assumptions, the following is a summary of the main increases or decreases to 2009/10 budgets that form the proposed 2010/11 HRA estimate. The main item to note is that the draft changes to the subsidy parameters, together with low provision for inflation on costs and increased use of balances, enable an additional contribution to the capital programme of £1m.

Item	£000
Overall increase in net income	-750
Inflationary increase in management & maintenance costs	300
Increase in maintenance budgets	360
Efficiency savings	-150
Decrease in subsidy payable	-190
Reduction in capital charges	-170
Increase in revenue funding for capital programme	1,100
Increased transfer from balances (from £500k to £1m)	-500

SECTION 3

3. Rent Harmonisation

3.1 This will be the fifteenth year of rent harmonisation. This follows a requirement of the Local Government and Housing Act 1989 which requires local authorities rent setting processes to take into account rent differentials between different types of properties in the private sector. Only 11 properties have a proposed rent for next year that is different to the target rent for that type of property.

3.2 To stay within the rent capping rules for subsidy purposes and to continue the process of harmonisation will mean that some tenants will have an increase of more than the average increase of £1.12 per week and some less than that. The maximum increase in rent for 2010/11 will be £2.12 for 11 properties

SECTION 4

4. Fees, Charges and Allowances

4.1 General fees, charges and allowances are increased either in line with the Authority's own inflation assumption or in line with the agreed rent increase. If the recommendations relating to the rent increase are approved then these rent related items will increase by 1.8%, and other charges by 2%.

4.2 It was agreed last year that charges for District Heating for Sheltered Tenants be increased above inflation to reflect the significant increases in heating costs over recent years. It is the intention to increase charges each year until they represent 85% of the actual costs. The proposal for 2010/11 is that charges are again increased by a maximum of inflation plus £1 per week.

SECTION 5

5. Projected HRA Capital Outturn 2009/10

5.1 The original approved capital programme for this year was £12.5m. This has been increased mainly due to slippage from 2008/9 to a projected spend this year of £15.858m. In addition there is slippage in to next year's programme estimated at £1.17m. Detail of the schemes is shown in Table C in the appendices.

5.2 This year's projected spend will be funded by £9m MRA, capital receipts from council house sales of £2.691m, and £4.167m from the HRA revenue account. The expenditure which is projected to slip in to next year will be funded from capital receipts.

SECTION 6

6. HRA Capital Programme 2010/11 – 2012/13

6.1 This section details the financial resources available for capital investment schemes to HRA properties over the next 3 financial years from 2010/11 to 2012/13 inclusive. The investment schemes are being targeted towards achievement of the Welsh Assembly Government's Welsh Housing Quality Standard (WHQS). The advantage of a 3 year programme is that it allows schemes to be developed at an early stage which will assist in maximising planned spending.

Financial Resources

6.2 Resources available for housing investment consist of Major Repair Allowance (MRA), capital receipts, revenue funding, and use of balances. However, given the national economic situation, and the recent reduction in council house sales, no capital receipts have been assumed for the next 3 years.

6.3 The table below identifies the projected funding available for capital investment for the next 3 financial years (at current prices). It should be noted that the MRA figure for 2010/11 (and future years – see below) is currently provisional subject to the confirmation of the WAG (which is expected in March). Once the final figure is provided the capital programme will be amended accordingly.

	2010/11 £'000s	2011/12 £'000s	2012/13 £'000s
MRA	9,000	9,000	9,000
Capital Receipts	0	0	0
Revenue Funding	3,500	4,000	4,500
Balances	1,000	1,000	1,000
Total	**13,500**	**14,000**	**14,500**

6.4 As explained in Section 2, it is proposed to increase the funding from the revenue account and from balances. An assumption is made at this juncture that the level of Revenue Funding can be maintained over the following two years. This enables an increase of £1m in the programme compared to the original programme for the current year, with additional increases of £500k in each of the next two years. However, it should be noted that the Council's resources are still substantially short of those required to achieve WHQS.

6.5 The implications of the Welsh Assembly Government reducing it's support for overall capital expenditure from 2011/12 are not known at this time. However, it is clear that a significant reduction will occur in 2011/12 to 2013/14, possibly by as much as 50% over this three year period. There have been no indications yet as to how this will affect Housing funding and MRA in particular. The possibility of a significant reduction will need to be taken into account when committing expenditure next year.

6.6 The proposed investment schemes are designed and intended to contribute towards elements of the WAG's Welsh Housing Quality Standard. The WHQS is a target standard for all social housing in Wales.The Investment proposals are targeted towards the repair and renewal of the basic building elements that make up the fabric of the dwellings i.e. roofs, walls, electrical wiring and central heating. The proposed programme focuses resources in these areas due to the long term repair requirements within public sector housing stock across the City & County of Swansea.

6.7 Table D contains a list of the proposed schemes for the three year period and the proposed allocation.

SECTION 7

7.1 Financial Implications

Expenditure is ring fenced to the HRA so there are no financial implications for the Council Fund.

7.2 Legal Implications

Tenants will need to be notified of the proposed increase in accordance with the provisions of section 102 of the Housing Act 1985. Section 102 b) states that variation of the Rent shall be carried out in accordance with the provisions of the Tenancy Agreement. Section 2.6 of the Council's Tenancy Agreement states that Tenants must be given 4 weeks notice before any Rent change.

7.3 Recommendations

The following budget proposals be approved:

a) In line with the Wales Assembly Government guideline, to increase rents by an average of £1.12 per week (average of 1.8%) over a 50 week rent year as detailed in section 2.

b) Continue the policy of rent harmonisation as detailed in section 3.

c) Approve the increase for fees, charges and allowances as outlined in section 4

d) Approve the revenue budget and capital programme as detailed in sections 2 and 6, and appendix.

Appendix	Table A: Summarised HRA 2009/10 to 2010/11 Table B: Movement in Balances 2009/10 to 2010/11 Table C: Projected HRA Capital Outturn 2009/10 Table D: Capital Programme 2010/11 – 2012/13

Background Papers: **None**

Contact Officer: **Kim Lawrence/Dave Bratley/David Evans**

Telephone Number: **637431/635215/635795**

Appendix

Table A: *Summarised* HRA 2009/10 to 2010/11

Classification	Original Estimate 2009/10	Projected Outturn 2009/10	Original Estimate 2010/11
	A	B	C
	£'000	£'000	£'000
Expenditure			
Management and Maintenance	29,778	29,618	30,447
Capital Charges	5,558	5,558	5,390
Revenue Funding for capital prog.	3,400	4,167	4,500
Negative subsidy	6,345	6,195	6,152
Total Expenditure	**45,081**	**45,538**	**46,489**
Income			
Rents and other income	44,181	44,181	45,089
Use of balances	500	957	1,000
Corporate building transfer	400	400	400
Total Income	**45,081**	**45,538**	**46,489**
Net Deficit (- surplus)	**0**	**0**	**0**

Table B: Movement in Balances 2009/10 to 2010/11

Description	Original 2009/10	Projected 2009/10	Estimate 2010/11
Balance at 1st April	9,414	10,470	9,513
Use of balances	-500	-957	-1,000
HRA deficit			
HRA surplus			
Forecast balance 31st March	**8,914**	**9,513**	**8,513**

The increase in reserves at 1st April 2009 between original and projected is as a result of underspends detailed in the outturn reports to members during June 2009

Table C: Projected HRA Capital Outturn 2009/10

Detail of schemes

Programme	2009/10 Projected Spend £'000s	Slippage to 2010/11 £'000s
Repairs/Improvements PRC Property Schemes	2,291	350
Windows Programme Schemes	1,163	
Wind & Weatherproofing Schemes	3,008	175
Refurbishment programme	1,304	
Regeneration Schemes	134	645
Security Measures	483	
Lift refurbishment	1,456	
Energy Efficiency Schemes	1,894	
Landscaping/Area Enhancement Schemes	1,081	
Adaptations Programme schemes	2,850	
Other Schemes	194	
Total	15,858	1,170

Table D: Capital Programme 2010/11 – 2012/13

Detail of schemes

Schemes	2010/11	2011/12	2012/13
	£000's	£000's	£000's
Good State of Repair			
Wind and Weatherproofing (WWP) Mayhill	750	670	700
Wind and Weatherproofing (WWP) Stembridge Ave and Area,	650	400	0
Wind and Weatherproofing (WWP) Maes Glas Flats	850	850	0
Wind and Weatherproofing (WWP) Conway Road, Penlan	550	450	500
Wind and Weatherproofing (WWP) West Cross	0	350	200
Wind and Weatherproofing (WWP) Jeffreys Court, Penlan	910	0	0
Wind and Weatherproofing (WWP) Matthew Street, Dyfatty	0	1,100	1,100
Wind and Weatherproofing (WWP) Croft Street, Dyfatty	0	0	900
Wind and Weatherproofing (WWP) Various	0	1,390	1,960
Repairs to British Iron & Steel Federation (BISFs) Houses Penlan	800	800	900
Repairs to Pre-cast Reinforced Concrete (PRCs) Houses Clydach	550	600	650
Repairs to Wimpey No Fines Houses (WNFs) - Various	550	750	900
Re-Roofing	350	400	400
Window Replacement			
Birchgrove	20	0	0
Blaenymaes	130	0	0
Clydach	60	0	0
Gorseinon	230	0	0
Gower	80	0	0
Penlan	185	0	0
Pontardulais	35	0	0
Various	110	0	0
Structural Repairs (Subsidence / Retaining Walls)	250	200	200
Safe and Secure			
Lift Replacement	650	0	0
Voice Entry Refurbishment	150	200	200
Smoke Alarms and Carbon Monoxide Detectors	150	200	200
Fire Safety	200	400	400
Electrical Rewiring	900	900	900
Adequately Heated			
Boiler Replacement	1,450	1,400	1,450
Upgrades - Energy Efficiency	200	200	200
Home Energy Efficiency Scheme (HEES)	40	40	40
Meeting Requirements of the Household			
Disabled Adaptations and Facility Grants	2,700	2,700	2,700
Total	**13,500**	**14,000**	**14,500**

Revised Cipfa Treasury Management Code and Treasury Management Policy Statement

Report of the Section 151 Officer

Extraordinary Council – 22nd February 2010

REVISED CIPFA TREASURY MANAGEMENT CODE OF PRACTICE AND THE TREASURY MANAGEMENT POLICY STATEMENT

	Summary
Purpose:	To recommend the Revised CIPFA Treasury Management Code of Practice and the Treasury Management Policy Statement
Policy Framework:	None
Reason for Decision:	To allow for the proper management of the Council's borrowing and investments, to comply with statute, and to adopt the Revised CIPFA Treasury Management Code of Practice
Consultation:	Legal and Finance.
Recommendations:	That the: ➢ Revised CIPFA Treasury Management Code of Practice and ➢ Treasury Management Policy Statement be adopted

1 Introduction

1.1 CIPFA has amended the CIPFA Treasury Management Code of Practice (the Code). It is a requirement of the Code that this Council should formally adopt the Revised Code and an amended Treasury Management Policy Statement.

2 The Revised CIPFA Treasury Management Code of Practice

2.1 The revised Code has emphasised a number of key areas including the following: -

a) All councils must formally adopt the revised Code and four clauses.
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) The main annual treasury management reports MUST be approved by full council.
i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
k) Treasury management performance and policy setting should be subjected to prior scrutiny.
l) Members should be provided with access to relevant training.
m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
n) Responsibility for these activities must be clearly defined within the organisation.
o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

2.2 CIPFA recommends that the Council formally adopts the following clauses of the Treasury Management Code of Practice:

This Authority will create and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1. The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This Authority (i.e. full council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

3. This Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices and for administration of treasury management decisions to the Section 151 officer who will act in accordance with the organisation's policy statement and Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

4. This Authority nominates the Financial Audit and Business Improvement Scrutiny Board to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

3 Treasury Management Policy Statement

3.1 A Policy is broadly defined as a framework of philosophies and parameters to guide subsequent plans and decisions and achieve desired outcomes, whereas a Strategy is a specific detailed plan of action to achieve those goals.

The revised Treasury Management Code recommends that each Authority formally adopts the following form of words to define the policies and objectives of its treasury management activities to help shape its strategy both in this year and future years.

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

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy Statement (revised)	Full council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Full council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Full council	Mid year
Annual Treasury Outturn Report	Full council	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Cabinet member for Finance and Finance Audit and Business Improvement Scrutiny Board	Quarterly

4 Legal Implications

4.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty

5 Recommendation

5.1 That the:

- Revised CIPFA Treasury Management Code of Practice and
- Treasury Management Policy Statement

be adopted

Contact officer: Mr Jeffrey Dong, Chief Treasury & Technical Officer
☎: 01792 636934

Background papers: The revised CIPFA Treasury Management Code of Practice 2009

Treasury Strategy Statement, Investment Strategy and Prudential Indicators for 2010/11

Report of the Section 151 Officer

Extraordinary Council – 22nd February 2010

TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2010-11

Summary	
Purpose:	To recommend the Treasury Management Strategy Statement, Prudential Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement for 2010/11.
Policy Framework:	None
Reason for Decision:	To allow for the proper management of the Council's borrowing and investments, to comply with statute, and the adopted CIPFA Prudential Code for Capital Finance in Local Authorities and the Revised CIPFA Treasury Management Code of Practice
Consultation:	Legal and Finance.
Recommendations:	That the: ➢ Treasury Management Strategy and Prudential Indicators (Sections 2-7) and ➢ Investment Strategy (Section 8) and ➢ Minimum Revenue Provision (MRP) Statement (Section 9) and be approved

1 Introduction

1.1 This strategy statement has been prepared in accordance with the revised CIPFA Treasury Management Code of Practice. Accordingly, the Council's Treasury Management Strategy will be approved annually by council and there will also be a mid year report. In addition monitoring reports will be provided to the Cabinet Member for Finance and councillors in scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the scrutiny of the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 <u>Revised CIPFA Prudential Code</u>
CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators: -

- authorised limit for external debt
- operational boundary for external debt
- actual external debt.

However, all indicators are to be presented together as one suite. In addition, where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy.

1.3 <u>Revised Investment Guidelines</u>
It should also be noted that the Welsh Assembly Government is currently undertaking a consultation exercise on draft revised investment guidance which will result in the issue of amended investment guidance for Welsh local authorities to come into effect from 1 April 2010. It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code.

1.4 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.5 The Council shall formally consider the prudential indicators included at section 2 of this report

1.6 The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The management of the Council's treasury management activities are in line with the CIPFA Treasury Management Revised Code of Practice.

1.7 The suggested strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, having consulted with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- policy on borrowing in advance of need
- the borrowing strategy
- debt rescheduling
- creditworthiness policy
- the investment strategy
- the Minimum Revenue Provision (MRP) Strategy

1.8 A glossary of terms used within this report is attached at Appendix A.

2 Treasury Limits for 2010/11 to 2012/13

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

1. increases in capital finance charges (principal and net interest) caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects

Are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2.2 Under statute, the Council is required to set its "Affordable Borrowing Limit" which outlines the limits of how much the Council can afford to borrow. In Wales, 'the Authorised Limit' represents the legislative limit specified in section 3 of the Local Government Act 2003.

2.3 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. The Authorised Limit is to be set for the forthcoming financial year and two successive financial years.

2.4 The Prudential Code for Capital Finance in Local Authorities states that certain prudential indicators which demonstrate applicable prudence in the formulation of borrowing proposals are calculated. These are namely the :

- Operational Boundary :
  "is based on expectations of the maximum external debt of the authority according to probable not simply possible events and being consistent with the maximum level of external debt projected by the estimates."

- Authorised Limit :
  "The authorised limit must therefore be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes."

- Upper limits for borrowing of fixed and variable rate loans.
- Upper limit for investments for over 364 days.
- Upper and lower limits for the maturity profile of the Council's debt
- Estimates of the incremental impact of capital investment decisions on council tax/housing rents
- Estimates of the ratio of financing costs to net revenue stream
- Estimates of the capital financing requirement

In setting and revising prudential indicators the authority is required to have regard to:-

- Affordability e.g. implications for Council Tax/Housing rents
- Prudence and sustainability e.g. implications for external borrowing
- Value for money e.g. option appraisal
- Stewardship of assets e.g. strategic planning
- Practicality e.g. achievability of forward plans

It is a requirement of the Code that prudential indicators are regularly monitored and systems are in place to achieve compliance.

Treasury Management Prudential Indicators						
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Probable	Estimate	Estimate	Estimate	Estimate
Capital Expenditure						
GF	58,389	58,507	37,448	23,680	19,535	14,614
HRA	13,028	15,858	14,676	14,000	14,500	9,000
Capital Financing Requirement						
GF	303,293	310,917	310,352	312,011	313,950	310,235
HRA	77,342	75,346	73,539	71,768	70,032	68,332
Magistrates' Court*	1,956	1,877	1,802	1,730	1,661	1,594
Authorised limit for external debt	542,140	542,140	542,140	542,140	523,443	523,443
Operational boundary for external debt	428,140	428,140	428,140	428,140	425,693	425,693
Upper limit for fixed interest rate exposure	542,140	542,140	542,140	542,140	523,443	523,443
Upper limit for variable rate exposure	216,856	216,856	216,856	216,856	209,377	209,377
Upper limit for total principal sums invested for over 364 days	75,000	75,000	75,000	75,000	75,000	75,000

* Legacy Magistrates' Court debt included for completeness

Maturity structure of fixed rate borrowing during 2009/10-20013/14		
	Upper limit %	Lower limit %
Under 12 months	50	0
12 months and within 24 months	50	0
24 months and within 5 years	50	0
5 years and within 10 years	85	0
10 years and above	95	15

Ratio of Financing Costs to Net Revenue Stream						
	Actual 2008/09 %	Revised 2009/10 %	Estimate 2010/11 %	Estimate 2011/12 %	Estimate 2012/13 %	Estimate 2013/14 %
General Fund	6.34	7.23	7.01	7.03	7.10	7.13
HRA	14.24	12.59	11.66	11.04	10.48	9.91

Estimates of Incremental Impact of Capital Investment Decisions on Council tax (Band D) and Council Housing Rents						
	Actual 2008/09 £	Revised 2009/10 £	Estimate 2010/11 £	Estimate 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £
General Fund	63.44	74.61	77.72	77.28	78.57	78.37
HRA	0.00	0.00	0.00	0.00	0.00	0.00

3 Current Portfolio Position

3.1 The Council's probable debt portfolio position at 31/3/10 comprises:

	Principal outstanding 31 March 2010 £'000	Average rate of Interest %
Fixed Interest Rates		
Public Works Loan Board (fixed)	244,824	6.10
Money Market	98,000	4.10
Variable Interest Rates		
Public Works Loan Board (variable)	-	-
Trusts and charities/internal/temp	1,516	1.37
TOTAL	**344,341**	**5.50**

3.2 The Council's probable investment portfolio at 31 March 2010 will be as follows:

	Investments 31 March 2010	2009/10 Estimated Investment Return	2010/11 Estimated Investment Return
	£'000	%	%
Externally Managed Investments	21,890	0.25	1.75
Internally Managed Investments	113,552	1.19	0.90
TOTAL			

4. Prospects for Interest Rates

4.1 The following table gives our treasury advisors' interest rate forecast for both short term (bank rate) and long term (PWLB) interest rates as at 21st January 2010. There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

	Mar 2010 %	Jun 2010 %	Sep 2010 %	Dec 2010 %	Mar 2011 %	Jun 2011 %	Sep 2011 %	Dec 2011 %	Mar 2012 %	Jun 2012 %
Base Rate	0.5	0.5	0.75	1.00	1.50	2.25	2.75	3.25	3.50	3.75
5yr Gilt Yield	3.05	3.20	3.30	3.40	3.60	3.85	4.15	4.55	4.60	4.80
10yr PWLB	4.00	4.05	4.15	4.30	4.45	4.60	4.80	4.90	5.00	5.10
25yr PWLB	4.55	4.65	4.70	4.80	4.90	5.00	5.05	5.10	5.20	5.30
50yr PWLB	4.60	4.70	4.75	4.90	5.00	5.10	5.15	5.20	5.30	5.40

4.2 <u>Economic Background</u>

Attached at Appendix B is a summary of the economic background formulated by our Treasury Advisers which has informed the strategy within this paper.

5 Borrowing Requirement

5.1 The Council will have the following capital borrowing requirements for 2009/10 to 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Probable	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
To finance new capital expenditure by supported borrowing	11,021	11,021	11,003	11,003	11,003	11,003
To finance new capital expenditure by unsupported borrowing	6,743	9,172	1,074	3,412	3,823	-
To replace loans maturing/repaid prematurely	5,153	5,882	5,978	6,084	6,151	6,283
Less						
Repayments	13,951	14,247	14,224	14,299	14,088	14,266
Voluntary contributions	706	450	300	300	300	1,853
TOTAL BORROWING REQUIREMENT EACH YEAR	8,260	11,378	3,531	5,900	6,589	1,167

5.2 The schedule in 5.1 identifies the funding requirement for each financial year. However, in line with the Prudential Code, borrowing may be undertaken in line with an advanced funding plan informed by the projected capital financing requirement. The above can be financed from the Public Works Loan Board or the Council may decide to use money market borrowing/internal borrowing dependant upon market conditions

5.3 At time of writing, borrowing rates are materially higher then investment rates, and it is projected that the borrowing requirements for 2009/10 and 2010/11 will be internalised, whilst continuing to appraise market conditions and opportunities to externalise debt when borrowing rates offer long term value. The merits of externalising borrowing are envisaged when long term rates are at sub 4.5% levels when the merits of externalising debt are considered on a risk adjusted basis.

5.4 2009/10 sees the introduction of International Financial Reporting Standards (IFRS) and as such may require the reclassification of the Authority's lease arrangements from operating lease arrangements to finance lease arrangements. The latter constitute 'other credit arrangements' under the Prudential Code and need to be disclosed accordingly within the indicators. The Authority has reviewed its lease arrangements and is awaiting the issuance of CIPFA and regulatory guidance to classify the same. It is anticipated that any effect of accounting requirements to the General Fund will be negated by Regulation when issued.

6 Borrowing Strategy

6.1 The unprecedented financial banking crisis has highlighted the need for caution whilst managing credit counterparty risk, (which is the risk of a bank or institution that the Council lends money to cannot pay the interest owed and or default on the capital lent) and it is mindful of these considerations that the borrowing strategy for 2009/10 and 2010/11 has been determined. The next financial year is expected to continue the run of historically low Bank Rate. This opens up an opportunity for authorities to fundamentally review their strategy of undertaking external borrowing. The Council holds investment balances, which affords the opportunity of 'internal borrowing.' As long term borrowing rates are expected to be higher than rates available for investment deposits and look likely to be so for the next couple of years or so, the Council have determined not to undertake any external borrowing whilst there is the dislocation between borrowing and investment rates whilst also actively managing credit counterparty risk and interest rate risk.

6.2 The main strategy (with a view to minimising interest costs) is therefore to internalise borrowing for the remainder of 2009/10 and for 2010/11, whilst monitoring the PWLB rates to undertake borrowing if rates offer long term value in the context of market rates and the current debt portfolio.

6.3 Against this background, caution will be adopted with the 2010/11 treasury operations

6.4 If external borrowing is to be undertaken it will be undertaken with obtaining value in the long term borrowing strategy for the Authority.

6.6 <u>Gross v Net Debt Position</u>

It can be seen below in table 6.6 the difference between the gross and net debt positions of the Authority as affected by levels of cash balances held. The level of balances have been identified as pertaining to a number of scheduled and general reserves whilst also recognising the balances held in respect of the pension fund. In recognition of current conditions and in line with good treasury management practice these levels are being managed as outlined in 6.1 above.

Table 6.6

Comparison of average gross debt and average net debt at year end	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	actual	probable	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Actual external debt (gross)	369,654	348,999	343,186	337,186	331,186	330,019
Cash balances	135,682	113,552	97,750	91,750	85,750	84,550
Net debt	233,972	235,447	245,436	245,437	245,436	245,469

6.7 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 considered carefully to ensure 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.

7 Debt Rescheduling

7.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 0.4%-0.5% for the longest period loans narrowing down to 0.25%-0.30% for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date.

7.2 Due to short term borrowing rates being expected to be considerably cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio

7.3 In actively managing the credit counterparty and interest rate risk, consideration will also be given to running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. This short term strategy will be considered if the repayment offers value in terms of discount /negligible premium payable whilst also retaining the flexibility to reinstate external borrowing if rates offer long term value in terms of rates available at a point in time.

7.4 As average PWLB rates in some maturity periods are expected to be minimally higher earlier on in the financial year than later on, there should therefore be greater potential for making marginally higher interest rate savings on debt by doing debt restructuring earlier on in the year. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 6 above

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

- the management of counterparty risk
- in order to help fulfil the strategy outlined above; and
- In order to enhance the balance of the long-term portfolio (amend the maturity profile and/or the balance of volatility).
- achieve the lowest possible net interest costs at minimum risk;

7.6 All rescheduling will be reported to the Cabinet Member for Finance and Finance and Business Improvement Scrutiny Board at the quarterly report following its action

8 Annual Investment Strategy

8.1 <u>Investment policy</u>

8.1.1 The Council will have regard to the National Assembly of Wales' Guidance on Local Government Investments ("the Guidance") issued in March 2004 and subsequent amendments and CIPFA's Revised Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code") and the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 SI 1010(W.107). The Council's investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments.
(c) maximise interest returns commensurate with priorities a) and b)

In the current financial conditions, it should be noted that the investment strategy will be implemented with security of investment as the main priority. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

8.1.2 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.

8.1.3 Investment instruments identified for use in the financial year are listed in Appendix C under the 'Specified' and 'Non-Specified' Investments categories. Operational Investment limits with individual institutions will be as set through the Council's Operational Treasury Management Practices.

8.1.4 Amendments to arrangements/limits and criteria detailed in Appendix C may be made by the Head of Finance and advised to the Cabinet Member for Finance/Finance and Business Improvement Scrutiny Board in the quarter following its action. Attached at Appendix G is the counterparty list of UK financial institutions that satisfy the minimum credit criteria that the Council can currently lend to as at 22nd January 2010.

8.1.5 The Council retains the services of two external fund managers who manage a portion of the Council's investments. They are Investec Asset Management who currently have no Council assets under management and Invesco investment management. The fund managers will comply with the Annual Investment Strategy. The fund managers' investment criteria are outlined in Appendix C

8.1.6 It is anticipated that the Council will continue to hold externally and internally managed funds during 2009/10 ensuring a suitable spread of investment risks. The performance of the investments for both external funds and internal funds will be reported to the Cabinet Member for Finance in the quarterly report. The Council has fixed benchmarks against which investment performance will be measured, i.e. the three month and 7 day LIBID rate.

8.1.7 <u>Interest Rate Outlook</u>:

Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in quarter 3 of 2010 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows: -

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

There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

For 2010/11 the Council has budgeted for an average investment return of 0.90% on investments placed during the financial year.

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

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

8.2 Creditworthiness Policy

This Council uses the creditworthiness service provided by our Treasury management Advisors. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. (As an example -attached at Appendix D is a definition for Fitch ratings) However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

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

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration (how long invested) for investments.

All credit ratings will be monitored daily with reference to the credit ratings report and updates. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a

weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

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

8.3 Country Limits

Whilst the financial crisis was at its height in 2008/09 and for much of 2009/10, the Authority ceased making overseas deposits. However going forward, as the world banking system recovers the Authority may determine on a risk managed basis to invest overseas again to ensure a well diversified portfolio.

As such, the Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- 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 E. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

8.4 Policy on the use of external advisers

The Council uses the services of an external Treasury management adviser

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

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

8.5 Scheme of Delegation

(i) Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities

(ii) Cabinet Member for Finance/Finance Business Improvement Scrutiny board

- receiving and reviewing regular monitoring reports
- reviewing the treasury management policy and procedures

(iii) Section 151 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.

8.6 Pension Fund Cash

This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st Jan 2010. Any investments made by the pension fund directly with this local authority after 1 April 2010 will comply with the requirements of SI 2009 No 393

9 Minimum Revenue Provision Policy Statement

9.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery. It is inappropriate to charge the entirety of this expenditure in any one year it is incurred, so this expenditure is spread over several years. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP) which was previously determined under Regulation, and in future will be determined under Guidance.

9.2 Statutory instrument WSI 2008 no.588 section 3 lays down that: "A local Authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent" (The requirement to make a 2% MRP charge for the Housing Revenue Account share of Capital Financing Requirement (CFR) is unchanged.)

9.3 Along with the above duty, the Welsh Assembly Government issued new guidance in March 2008 which requires that a Statement on the Council's Policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. The Council are legally obliged to 'have regard' to the guidance, which means that, although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge.

9.4 The Welsh Assembly Government guidance outlines 4 broad options to adopt for the calculation of MRP. They are:

- Option 1- Regulatory Method
- Option 2 - Capital Financing Requirement Method
- Option 3 - Asset Life Method
- Option 4 – Depreciation Method

The options in detail appear at Appendix F.

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

9.6 The major proportion of the MRP chargeable will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 or 2 of the guidance. Certain expenditure reflected within the debt liability at 31st March 2007 will under delegated powers be subject to MRP under option 3 or 4 which will be charged over a period commensurate with the estimated useful life applicable to the nature of expenditure. Estimated life periods will be determined under delegated powers. The Council's finance officers reserve the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. Going forward, it is proposed that all debt arising from capital expenditure supported by WAG will be charged MRP in accordance with option 1 or 2 and all other capital expenditure and other 'capitalised' expenditure will be repaid under option 3 or 4 as deemed most appropriate.

10 Legal Implications

10.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty.

11 Recommendation

11.1 That the:

- Treasury Management Strategy and Prudential Indicators (Sections 2-7) and
- Investment Strategy (Section 8) and
- Minimum Revenue Provision (MRP) Statement (Section 9) and

Be approved

Contact officer:	Mr Jeffrey Dong, Chief Treasury & Technical Officer
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Background papers:	The revised CIPFA Treasury Management Code of Practice 2009
	The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2009

Appendix A

Treasury Management – Glossary of Terms

Annualised Rate of Return	Represents the average return which would have been achieved each year.
Authorised Limit ***(can also be considered as the affordable borrowing limit)***	The authorised limit must be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes. It is the expected maximum borrowing need, with some headroom for unexpected movement.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Basis Points (bp)	A basis point is 0.01 of 1% (100 bp = 1%)
Borrowing	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- • Borrowing repayable with a period in excess of 12months • Borrowing repayable on demand or within 12months
Capital Expenditure	The definition of capital expenditure starts with all those items which can be capitalised in accordance with the Statement of Recommended Practice (SORP). To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for current and future years are calculated in a manner consistent with this definition.

Capital Financing Charges (see financing costs also)	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
Capital Financing Requirement	The Capital Financing Requirement is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
CIPFA	The Chartered Institute of Public Finance and Accountancy. One of the leading professional accountancy bodies in the UK and the only one which specialises in the public services.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Rating	This is a scoring system that lenders issue people with to determine how credit worthy they are. The Credit Rating components are as follows: 1. The AAA ratings through to C/D are long-term rating definitions and generally cover maturities of up to five years, with the emphasis on the ongoing stability of the institution's prospective financial condition. AAA are the most highly rates, C/D are the lowest. This Council does not invest with institutions lower than AA- for investments over 364 days 2. F1/A1/P1 are short-term rating definitions used by Moody's, S&P and Fitch Ratings for banks and building societies based on their individual opinion on an institution's capacity to repay punctually its short-term debt obligations (which do not exceed one year). This Council does not invest with institutions lower than F1/A1/P1 for investments under 364 days.
Debt	For the purposes of the Code, debt refers to the sum of borrowing (see above) and other long-term liabilities (see below). It should be noted that the term borrowing used with the

	Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.
Discounts	Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.
Financing Costs	The financing costs are an estimate of the aggregate of the following:- • Interest payable with respect to borrowing • Interest payable under other long-term liabilities • Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers (premiums and discounts) • Interest earned and investment income • Amounts required in respect of the minimum revenue provision plus any additional voluntary contributions plus any other amounts for depreciation/impairment that are charged to the amount to be met from government grants and local taxpayers
Financial Reporting Standards (FRSs)	These are standards set by governing bodies on how the financial statements should look and be presented.
Investments	Investments are the aggregate of:- • Long term investments • Short term investments (within current assets) • Cash and bank balances including overdrawn balances From this should be subtracted any investments that are held clearly and explicitly

	in the course of the provision of, and for the purposes of, operational services.
LOBO (Lender's Option/ Borrower's Option	Money Market instruments that have a fixed initial term (typically one to ten year) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.
London Inter-Bank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Managed Funds	<u>In-House Fund Management</u> Surplus cash arising from unused capital receipts can be managed either by external fund managers or by the Council's staff in-house. The in-house funds are invested in fixed deposits through the money markets for periods up to one year. <u>Externally Management Funds</u> Fund managers appointed by the Council invest surplus cash arising from unused capital receipts in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a higher rate of earnings on the managed funds than would be otherwise obtained.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision (MRP)	The amount required by statute to be principal repayment each year.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two year time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.

Money Market	Consists of financial institutions and deals in money and credit. The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephone one.
Net Borrowing	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
Net Revenue Stream	Estimates for net revenue stream for current and future years are the local authority's estimates of the amounts to be met from government grants and local taxpayers.
Operational Boundary	This is based on expectations of the maximum external debt of the authority according to probable not simply possible – events and being consistent with the maximum level of external debt projected by the estimates. It is not a limit and actual borrowing could vary around this boundary for short periods.
Other Long Term Liabilities	The definition of other long term liabilities is the sum of the amounts in the Council's accounts that are classified as liabilities that are for periods in excess of 12months, other than borrowing (see definition above).
Premature Repayment of Loans (debt restructuring/rescheduling)	A facility for loans where the Council can repay loans prior to the original maturity date. If the loan repaid has a lower interest rate than the current rate for a loan of the same maturity period the Council can secure a cash discount on the repayment of the original loan. If the loan replaced has a higher rate of interest than the current rate for a loan of the same maturity period, a cash penalty is payable to the lender.
Premia	Where the prevailing current interest rate is lower than the fixed rate of a long term loan, which is being repaid early, the lender can charge the borrower a premium. This is calculated on the difference between the two interest rates over the remaining years of the

	loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.
Prudential Code	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
Public Works Loan Board (PWLB)	A Government agency which provides loans to local authorities. Each year, it issues a circular setting out the basis on which loans will be made available. Loans can be either at a fixed rate or on a variable rate basis. They can be repaid on either an annuity, equal instalment of principal or maturity basis. The interest rate charged is linked to the cost at which the Government itself borrows.
Range Trade Accrual	A Callable Range Accrual is so called because it is callable or cancellable by the bank after the initial period, as above. However, where it differs, is that interest accrues only as long as Libor (London Interbank Offer Rate, or another independently derived and published benchmark rate) stays within a pre-agreed range. The lender can choose the range, the non-call period, the Libor they wish to use, the call periods and the potential return they wish to receive. The bank has the right to cancel this trade after the first 3 months, and every 3 months thereafter. With a range trade, the lender is backing his judgement on interest rate movements and in exchange for that can achieve a significantly enhanced return. This is done as part of portfolio management. The risk of rates going above Libor on a small part of the portfolio (and therefore none, or little payment on a range accrual) will be offset by the fact that the rest of the portfolio will be returning more than expected. The key risk to a callable range accrual is obviously that the contractual Libor rate goes outside the specified range. It is possible to mitigate this risk by analysing the historical behaviour of any specified Libor relative to base rate. By taking a view on expected base rate (which is done on all deposits), a lender can minimise exposure, and choose a range to match his

	risk appetite.
Risk	Counterparty Credit Risk The risk that a counterparty defaults on its obligations. Inflation Risk The risk that growth in the Authority's investment income does not keep pace with the effects of inflation on its expenditure. Interest Rate Risk The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council's finances. Liquidity Risk The risk that cash will not be available when it is needed. Operational Risk The risk of loss through fraud, error, corruption, system failure or other eventualities in treasury management dealings, and failure to maintain effective contingency management arrangements. Refinancing Risk The risk that the Authority is unable to replace its maturing funding arrangements on appropriate terms.
Set Aside Capital Receipts	A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.
Snowball	A Snowball deposit takes a 'bearish' view on rates, i.e. that rates are going to fall faster (or rise slower) than the market expects. If this view proves correct, the interest coupon will increase or '*snowball*'. The snowball can be a useful tool for protecting a portfolio against falling cash yields. The coupon for the first period is set at a fixed level on the trade date. Subsequent coupons then increase (or decrease) depending on how rates have actually moved over time, in comparison to a 'strike' level, which is also determined on the

	trade date. The lender can choose the initial coupon, strike levels, and as for the Callable Range Accrual; the non-call period, the rate you wish to use and the call periods (snowballs may be issued as either callable or non-callable). Note that the coupon amount is determined at each payment date, rather than accruing on a daily basis. To illustrate how this works, consider the following (hypothetical) example: Libor is currently at 6% and the market expects rates to remain there *but* you believe rates will fall to 5.50%. You invest in the following snowball deposit paying you an initial Coupon of 7% for 3 months. Subsequent coupons are calculated as follows every quarter: Previous Coupon + 6.25% - Libor (where 6.25% is your chosen strike level) So let's consider what happens for the next coupon if Libor does fall to 5.50%. It would be: 7% + 6.25% - 5.50% = 7.75% On the other hand, if Libor instead rises to 6.50% the coupon would be: 7% + 6.25% - 6.50% = 6.75% So the coupon rises if Libor falls below your strike level or falls if Libor rises above the strike. To complete the picture and to move on to the third coupon, the calculation, taking the first of the above alternatives, would be: 7.75% + 6.25% - Libor. If Libor fixes below 6.25%, the coupon continues to rise, or snowball. The key risk to a snowball is that the specified Libor rate goes against the interest view of the lender. If this scenario continues through many call periods, the rate may snowball in reverse, or melt away. There would be an opportunity to reschedule the loan, but this would probably be at a punitive rate if rates were expected to go with the borrowers. As with range trade accruals, the risk of rates going above Libor on a small part of the portfolio (and therefore reduced payment on a snowball), will be offset by the fact that the rest of the portfolio will be returning more than expected.
SORP	Statement of Recommended Practice, published by CIPFA (Local Authority Accounting Body). This sets out guidelines regarding the Council's financial matters.

Specified/Non Specified investments	Specified investments are sterling denominated investments for less than 364 days as identified in Appendix A in line with statutory investment regulations. Non-specified investments are all other investments identified in Appendix A in line with statutory investment regulations.
Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank and World Bank. As with Government bonds (Gilts) they are regarded as the safest bond investments with a high credit rating.
Temporary Borrowing and Investment	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
Treasury Management	Treasury management has the same definition as in CIPFA's code of Practice of Treasury Management in the Public Services. "The management of the organisation's 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."
Yield Curve	The line resulting from portraying interest rate graphically for a series of periods, e.g. 7days, 1month, 3, 6, 9, and 12months. When longer-term interest rates are higher than short-term rates the yield curve slopes upwards and is described as positive. When the opposite prevails the yield curve is referred to as inverse.

APPENDIX B

1 **Economic Background**

1.1 Introduction

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

1.2 Two growth Scenarios

- The current big issue is 'how quickly will the major world economies recover?' There is a sharp division of opinion on this question as set out below.

1.3 Strong Recovery

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

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

credit. However, it is felt that the Bank of England is on alert to ensure that this does not happen and would continue various measures to assist the expansion of credit.

1.4 Weak Recovery

- The current economic cycle is not a normal business cycle but a balance sheet driven cycle. Over borrowed banks, corporates and consumers are focused on shrinking their levels of borrowing to more viable and affordable levels and this balance sheet adjustment will take several years to be effected. Repayment of debt will therefore act as a major head wind to the required increase in demand in the economy. Consequently there will only be weak economic recovery over the next few years after the initial sharp inventory rebuilding rebound fades. GDP growth is forecast to reach only +1.5% in 2011.
- Fiscal contraction will further dampen economic recovery driven by a strong political agenda to accelerate cuts in expenditure and increases in taxation after the general election in 2010.
- The consumer savings ratio will rise so as to eliminate over borrowing and to insure against people losing their jobs during this downturn. This will depress consumer expenditure, the main driver of the UK economy.
- Growth will also be hampered by a reduced supply of credit from weakened banks compounded by weak demand for credit.
- The eventual reversal of Quantitative Easing will take cash out of the economy and reduce demand in the economy.
- Unemployment is likely to rise to near to 3m in 2010 and take years to subside due to weak growth. High unemployment will reduce tax income and increase expenditure on benefits and the costs of local authority services.
- Inflation will not be a threat for several years as the current 6% output gap will take until 2014 to be eliminated.
- However, deflation is a major danger for some years: the major falls in manufacturing prices over the last 12 -18 months have still to feed through to the economy and then to impact wage deflation.
- CPI inflation will blip up over 2% in early 2010 but will then be on a strong downward trend to about -1% in 2011.
- There is no need for the MPC to change Bank Rate from 0.5% in 2010 or 2011 and possibly for 5 years as they will need to counter the fiscal contraction which will dampen demand in the economy.
- Long PWLB rates will FALL from current levels to near 4% in 2010 due to weak economic recovery and minimal inflation so that the real rate of return (net of inflation) on long gilts is healthy at these low levels

1.5 Treasury Advisers' View

- The advisers recognise that at the current time it is difficult to have confidence as to exactly how strong the UK economic recovery will prove to be. Both the above scenarios are founded on major assumptions and research which could or could not turn out to be correct.
- They have adopted a more moderate view between these two scenarios outlined above i.e. a moderate return to growth.
- They do, however, feel that the risks that long term gilt yields and PWLB rates will rise markedly are high.
- There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas: -
  - degree of speed and severity of fiscal contraction after the general election
  - timing and amounts of the reversal of Quantitative Easing,
  - speed of recovery of banks' profitability and balance sheet imbalances
  - changes in the consumer savings ratio
  - rebalancing of the UK economy towards exporting and substituting imports
- The overall balance of risks is weighted to the downside i.e. the pace of economic growth disappoints and Bank Rate increases are delayed and / or lower.

There is an identifiable risk of a double dip recession and deleveraging (repayment of debt) creating a downward spiral of falling demand, falling jobs and falling prices and wages leading to deflation but this is considered to be a small risk and an extreme view at the current time on the basis of current evidence

Appendix C

1. **Investment Criteria for Specified and Non Specified Investments**

1.1 Investments will be made in accordance with the following terms:

1.1.1 **<u>Specified Investments:</u>**

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable and the principal sum to be repaid at maturity is the same as the initial sum invested other than investments in the UK Government.)

Instrument	Minimum Credit Criteria	Use	Max investment
Debt Management Agency Deposit Facility	--	In-house	£100M
Term deposits – UK government	--	In-house	£100M
Term deposits – other LAs	--	In-house	£15M with each counterparty
Term deposits – banks and building societies	Short-term F1,P1,A1, Long-term AA- or UK nationalised banks	In-house and fund managers	£15M with each counterparty/ See 2 and 3 below
Term deposits – Banks nationalised by highly credit rated sovereign countries	Short-term F1,P1,A1, Long-term AA-	In-house and fund managers	£15M with each counterparty/ See 2 and 3 below
Government guarantee on all deposits by high credit rated sovereign countries	AA-	In-house and fund managers	£15M with each counterparty/ See 2 and 3 below
UK Government supported banking sector	AA-	In-house and fund managers	£15M with each counterparty/ See 2 and 3 below

1.1.2 **Non-Specified Investments:**

A maximum of 35% will be held in aggregate of Council managed funds in non-specified investments. A maximum of 50% of aggregate funds managed by the Council's external fund managers will be held in non-specified investments.

Instrument	Min Credit Criteria	Use	Maximum Period	Maximum Investment
Term deposits – UK government (with maturities in excess of 1 year)		In-house	5 years	£30M
Term deposits – other Local Authorities (with maturities in excess of 1 year)		In-house	5 years	£15M with each counterparty
Certificates of deposits issued by banks and building societies covered by UK government guarantee	Short-term F1,P1,A1 Long-term AA-	Fund managers/ in-house	See 2 and 3 below	See 2 and 3 below/£15m with each counterparty
Certificates of deposits issued by banks and building societies covered by UK government guarantee	Short-term F1,P1,A1 Long-term AA-	Fund managers/in house	See 2 and 3 below	See 2 and 3 below/£15m with each counterparty
UK Government Gilts	-	Fund Managers/in house	See 2 and 3 below/5 years	See 2 and 3 below /£15M
Treasury Bills	-	Fund Managers/in house	See 2 and 3 below/5 years	See 2 and 3 below /£15M
Term deposits – banks and building societies (with maturities in excess of 1 year)	Short-term F1,P1,A1 Long-term AA-, or UK nationalised banks	In-house	5 years	£15M with each counterparty
Certificates of deposits issued by banks and building societies	Short-term F1,P1,A1 Long-term AA-,	fund managers/in -house	10 years	See 2 and 3 below/£15M with each counterparty
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers/in house	10 years	See 2 and 3 below/£15M with each counterparty
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£15M with each counterparty and See 2 and 3 below
Bonds issued by a financial institution which is guaranteed by the UK government	-	In-house on a 'buy-and-hold' basis.	5 years	£15M with each counterparty

		Also for use by fund managers	10 years	See 2 and 3 below
Sovereign bond issues (i.e. other than the UK govt)	AAA	In- house Fund Managers	5 years 10 years	£15M with each counterparty See 2 and 3 below
Corporate Bonds : [under SI 1010 (W.107)]	Long-term AA-	In- house Fund Managers	5 years 10years	£15M with each counterparty See 2 and 3 below
Gilt Funds and Bond Funds	Long-term AA-	In- house Fund Managers	5 years 10years	£15M See 2 and 3 below
Money Market Funds	AAA	In- house Fund Managers	n/a n/a	£15M See 2 and 3 below
Property funds	-	Fund managers	n/a	£15M See 2 and 3 below
Floating Rate Notes	Long-term AA-	Fund managers	10 years	See 2 and 3 below
Treasury Bills	N/A	Fund Managers	10 years	See 2 and 3 below
Local authority mortgage guarantee scheme	Short-term F1,P1,A1 Long-term AA-,	In-house	10 years	£15m with each counterparty
Fixed term deposits with variable rate and variable maturities				
1. Callable deposits	Short-term F1,P1,A1 Long-term AA-,	In-house and fund managers	5/10 years	£15m with each counterparty /see 2 and 3 below
2. Range trade accrual (see glossary)	Short-term F1,P1,A1 Long-term AA-,	In-house and fund managers	5/10 years	£15m with each counterparty /see 2 and 3 below
3. Snowballs (see glossary)	Short-term F1,P1,A1 Long-term AA-,	In-house and fund managers	5/10 years	£15m with each counterparty /see 2 and 3 below

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

1.3 The Council uses a combination of Fitch, Standard & Poor and Moody's (credit rating agency) ratings to derive its criteria. All credit ratings will be monitored daily. The Council is alerted to changes in ratings through its use of its adviser's 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.

2. Investment Criteria - Invesco

2.1 The Fund will normally be invested in short term fixed interest rate deposits and certificates of deposit carrying interest rates of up to one year or debt instruments guaranteed by the UK government and for cashflow balances the use of AAA rated money market funds. At any given time, a maximum of 50% of the portfolio by market value may be invested in negotiable securities carrying rates of interest for periods of over one year from the date of investment.

2.2 The maximum exposure to any one counter party is not to exceed 10% of the fund value or £2,000,000 whichever is the lower. Variances to be agreed by the Head of Finance.

2.3 The average duration of the investments for the fund shall not exceed 3 years, with the maximum maturity of any individual investment shall not exceed 10 years.

2.4 The fund will only lend to counterparties on the Invesco Standard lending list. The minimum criterion for the same is:

- Short term rating of A1, F1, P1 from the credit ratings agencies Moody's Fitch and Standard and Poor.
- Long term rating of AA- from Standard and Poor or equivalent from Moody's or Fitch.
- Invesco reserve the right to amend the standard lending list if internal research generated supports such a move.

N.B if there is a variation in ratings between agencies for a particular counterparty the lowest rating will be applied.

3. Investment Criteria – Investec

Note – Investec currently have no Council assets under management.

3.1 The managed fund will normally be invested in investments or deposits carrying rates of interest fixed for up to one year from the date of purchase. However, at any given time, a maximum of 50% of the nominal value of the managed fund may be invested in securities carrying interest rates fixed for periods between one and ten years and within this 50%, 20% of the nominal value of the managed fund may be invested in securities carrying interest rates fixed for periods of longer than ten years.

3.2 The average duration of the investments for the fund shall not exceed 3 years, with the maximum maturity of any individual investment shall not exceed 10 years.

3.3 The maximum exposure to any one counterparty is not to exceed 10% of the fund value or £2,000,000 whichever is the lower. Variances to be agreed by the Head of Finance.

3.4 The fund will only lend to counterparties on the Investec standard lending list. The minimum criterion for the same is:

- Short term rating of F1 as specified by the Fitch credit ratings agency or equivalent
- Long term rating of AA- or better as specified by Fitch credit ratings agency or equivalent

Appendix D

Fitch International Long-Term Credit Ratings

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The major exception is within Public Finance, where IDRs will not be assigned as market convention has always focused on timeliness and does not draw analytical distinctions between issuers and their underlying obligations. When applied to issues or securities, the LTCR may be higher or lower than the issuer rating (IDR) to reflect relative differences in recovery expectations. The following rating scale applies to foreign currency and local currency ratings:

Investment Grade	**Definition**
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.
Speculative Grade	**Definition**
BB	Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment

	grade.
B	Highly speculative. • For issuers and performing obligations, 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment. • For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of 'RR1' (outstanding).
CCC	For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions. • For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of 'RR2' (superior), or 'RR3' (good) or 'RR4' (average).
CC	For issuers and performing obligations, default of some kind appears probable. • For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of 'RR4' (average) or 'RR5' (below average).
C	• For issuers and performing obligations, default is imminent. • For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of 'RR6' (poor).
RD	Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honour other classes of obligations.
D	Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following: • Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation; • The bankruptcy filings, administration, receivership,

	liquidation or other winding-up or cessation of business of an obligor; • The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

Fitch International Short-Term Credit Ratings

The following ratings scale applies to foreign currency and local currency ratings. A Short-term rating has a time horizon of less than 13 months for most obligations, or up to three years for US public finance, in line with industry standards, to reflect unique risk characteristics of bond, tax, and revenue anticipation notes that are commonly issued with terms up to three years. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

Short Term Rating	Current Definition
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.
B	Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.
D	Indicates an entity or sovereign that has defaulted on all of its financial obligations.

Appendix E

Approved Countries for Investment

AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Spain
- Sweden
- Switzerland
- U.K.
- U.S.A.

AA+

- Australia
- Belgium

AA

- Hong Kong
- Japan
- Kuwait
- Portugal
- UAE

AA-

- Italy
- Qatar (AA- S&P rating)
- Republic of Ireland *
- Saudi Arabia

APPENDIX F

MINIMUM REVENUE PROVISION

1. New Government Guidance

The Welsh Assembly Government issued new guidance in March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council are legally obliged by section 21 (1b) to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Where the CFR was nil or negative on the last day of the preceding financial year, the authority does not need to make an MRP provision. MRP in the current financial year would therefore by zero,

Option 1: Regulatory Method

Under the previous MRP regulations, General Fund 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 option is available for the General Fund share of capital financing requirement which relates to capital expenditure incurred prior to 1 April 2008. It may also be used for new capital expenditure up to the amount which is deemed to be supported by the Welsh Assembly Government annual supported borrowing allocation. The use of the commutation adjustment to mitigate the MRP charge is also allowed to continue under this option.

Option 2: Capital Financing Requirement Method

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

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

The guidance suggests that any new borrowing which receives no Government support and is therefore self-financed would fall under option 3

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

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

There are two methods of calculating charges under option 3:

Equal instalment method – equal annual instalments which are calculated using a simple formula set out in paragraph 9 of the MRP guidance,

under this approach, the MRP is provided by the following formula

A – B divided by C

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires

Annuity method – annual payments gradually increase during the life of the asset with an appropriate interest rate used to calculate the annual amount

Asset life - the MRP guidance makes it clear that the estimated life of an asset should be determined in the year MRP commences and should not subsequently be revised

Under both options, the authority may make additional voluntary revenue provision and this may require an appropriate reduction in later years' MRP

In addition adjustments to the calculation to take account of repayment by other methods (e.g. application of capital receipts) should be made as necessary.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

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

2. Date of implementation
The previous statutory MRP requirements cease to have effect after the 2006/07 financial year. However, the same basis of 4% charge in respect of the GF share of CFR may continue to be used without limit until the 2009/10 financial year, relative to expenditure incurred up to 31/3/2008.

The guidance suggests that Options 3 and 4 should be applied to any capital expenditure which results in an increase in the CFR and does not relate to the authority's Supported Capital Expenditure.

The guidance also provides the authority with discretion to apply Options 3 or 4 to all capital expenditure whether or not supported and whenever it is incurred.

Any capitalised expenditure incurred after 1 April 2008 which gives rise to an increase in the GF CFR should be repaid by using option 3 as adapted by paragraphs 23 and 24 of the guidance.

Appendix G

Active Internal Credit UK Counterparty List (as at 25th January 2010)

1	Abbey National plc
2	Alliance & Leicester
3	Bank of Scotland
4	Barclays Bank
5	Clydesdale Bank
6	Debt Management Office
7	HSBC Bank
8	Lloyds TSB
9	Nationwide Building Society
10	Royal Bank of Scotland