CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

18 FEBRUARY 2010

REPORT OF CORPORATE MANAGEMENT TEAM

COUNCIL DECISION

Lead Cabinet Member – Councillor Kenneth Lupton, Leader

REVIEW OF THE MEDIUM TERM FINANCIAL PLAN AND BUDGET 2010/11

1. Summary

This is the final report in the process of determining the Medium Term Financial Plan (MTFP) for 2010/11 onwards. It incorporates the level of Council Tax increase and associated budget issues.

2. Recommendations

1. That in accordance with the Local Government Act 2003, Members note that the Section 151 Officer confirms that the following recommendations:-

   a) represent a robust budget which has been prepared in line with best practice,
   b) provide adequate working balances at 3% of general fund and net operating expenditure of HRA, and
   c) that the controlled reserves and provisions are adequate for their purpose.

General Fund Budget

2. Approve a 2010/11 budget for Stockton-on-Tees Borough Council of £150,996,155.

3. Approve a 2010/11 budget for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£582,560) of £151,578,715.

Taxation

SBC

4. The Council Tax for Stockton-on-Tees Borough Council, prior to Parish, Fire and Police Precepts, be increased by 2.0% to a level of £1221.53 at Band D (£814.35 Band A).

Fire, Police & Parish

5. The Council note the Fire Precept of £3,742,736, which equates to a Council Tax of £63.97 at Band D (£42.65 at Band A).

6. The Council note the anticipated Police Precept of £10,989,972, which equates to a Council Tax of £187.84 at Band D (£125.23 at Band A).

7. The Council note the Parish precepts as set out in paragraph 20, page 15 of the budget report.

Council Tax - Statutory Requirements

8. Members approve the statutory requirements for Council Tax as shown in **Appendix C**.

Treasury Management/Prudential Code

9. Council approve the Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators for 2010/11 – 2012/13 as set out in **Appendix D** to the report.

Capital

10. Approve the proposed Stock Rationalisation Programme at **Appendix E**.

11. Approve the revised capital programme for 2009/10 (paragraph 28) and for 2010/11 at **Appendix F**.

Housing Revenue Account

12. Approve The Housing Revenue Account as set out in **Appendix G**.

13. Approve the proposed Council Rents increase at **Appendix H**.

Partnering Proposals

14. Approve the proposed service areas for feasibility in **Appendix I**.

3. Reasons for the Recommendations/Decision(s)

To allow final decisions on financial/taxation policy to be taken prior to the statutory deadline of 11 March 2010 and to allow the continued development of the Authority and its partnerships through effective management of the Authority and its resources

4. Members' Interests

Members (including co-opted Members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (**paragraph 8**) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (**paragraphs 10 and 11 of the code of conduct**).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting considering the business is being held -

- in a case where the Member is attending a meeting (including a meeting of a select committee) but only for the purpose of making representations, answering questions or giving evidence, provided the public are also allowed to attend the meeting for the same purpose whether under statutory right or otherwise, immediately after making representations, answering questions or giving evidence as the case may be;

- in any other case, whenever it becomes apparent that the business is being considered at the meeting;

and must not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (**paragraph 12 of the Code**).

Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc; whether or not they are a Member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting (unless the interest arises solely from the Member's membership of, or position of control or management on any other body to which the Member was appointed or nominated by the Council, or on any other body exercising functions of a public nature, when the interest only needs to be declared if and when the Member speaks on the matter), and if their interest is prejudicial, they must also leave the meeting room, subject to and in accordance with the provisions referred to above.

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DETAIL

1. The Council is required to take a range of decisions in advance of each new financial year with a statutory deadline for a balanced budget by 11 March 2010.

2. The report contains sections on:

   - Final 2010/11 settlement.
   - General Fund position.
   - An assessment of pressures in comparison to available resources.
   - A strategy for producing future efficiencies.

FINANCIAL AND LEGAL IMPLICATIONS

3. The report updates the Medium Term Financial Plan to reflect a number of pressures and associated resources.

4. In line with the Local Government Act 2003, the report recommends the approach to a robust, balanced budget. The timescales identified in the report are within the requirements laid down in Section 30 of the Local Government Finance Act 1992.

RISK ASSESSMENT

5. The update of the Medium Term Financial Plan is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS

6. The report supports the Sustainable Community Strategy and Council Plan.

EQUALITIES IMPACT ASSESSMENT

7. An assessment has been undertaken. This resulted in a successful score of 65 and an associated action plan. Details of all documentation can be accessed by contacting the Head of Finance, Procurement & Performance, Paul Saunders

CONSULTATION INCLUDING WARD/COUNCILLORS

8. A series of consultation events have taken place between. These involved Viewpoint, Business Forum, Renaissance and Stockton Members.

Julie Danks
Corporate Director of Resources

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MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2010/11

BACKGROUND

CURRENT FINANCIAL POSITION – DECEMBER 2009

General Fund

1. The following table details the current MTFP position of each service. Recent reports have identified the difficult financial position facing the Council and officers are considering carefully expenditure in all areas.

Service Reserves (MS)/MC	Approved Position at 30/09/2009 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2010 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2011 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2012 (MS) / MC's £'000's	Projected Outturn Position at 31/03/2013 (MS) / MC's £'000's
CESC	(653)	(1,598)	(755)	(458)	0
D & NS	(523)	(745)	(271)	0	0
RESOURCES	0	(75)	(50)	(25)	0
TEES ACHIEVE	0	0	0	0	0
LAW & DEMOCRACY	(72)	(79)	(14)	0	0
POLICY & COMMUNICATIONS	(278)	(655)	(113)	(56)	0
TOTAL	**(1,526)**	**(3,152)**	**(1,203)**	**(543)**	**0**

Children, Education and Social Care

2. The previous finance report identified a range of pressures, particularly in adult social care and also a range of activities which were expected to result in savings and hence have minimal impact on the overall medium term financial plan.

   There has been some easing of the demand led budget pressures from the last quarter. In particular, there has been a reduction in the projected pressures on elderly and mental health residential placements, adoption allowances and foster allowances (£404k). This position has also improved due to the renegotiation of mental health management costs in partnership with Tees, Esk and Wear Valleys NHS Trust (£253k)

   Members will recall that demand led pressures were foreseen in budget setting and £575,000 was allocated for budget growth. It is now anticipated that due to efficiencies and savings made throughout the service that the directorate will not have to call these funds this year. Given however that there are still increasing levels of demand in this area and that a number of the in-year savings are one-off, this resource has been carried forward to fund the costs of demand in these areas.

Development & Neighbourhood Services

3. In the report for the last quarter, a number of pressures, mainly due to the current economic conditions were indentified. The position has improved in the last quarter:

   - Planning Services - work on the LDF has been reprogrammed therefore expenditure is less than expected (£65k) and will be rolled forward to future years. Other savings relate to vacant posts not being filled and less expenditure on planning inquiries

- The fire at the waste incinerator site operated by SITA that resulted in a number of their lines being put out of operation. After taking account of the fire and other additional disposal factors it is anticipated that the service overall will incur additional costs of £115,000, significantly lower than previously estimated.

After taking into account the pressures detailed above and a number of savings being achieved across the service it is now expected that the MS/MC balance will increase to £745,000.

<u>Policy, Performance and Communications</u>

4. Within Policy, Performance and Communications it is now apparent that underspending will occur due to:

- The Policy and Performance Framework project will now not incur costs in 2009/10 saving £200,000

- Staff savings have arisen and additional grant funding of £131,000 has been received. These have not been utilised in 2009/10 pending the EIT review, leading to a further underspend of £320,000.

It is anticipated that MS/MC balance will increase to £655,000.

General Fund Balances and Earmarked Reserves

5. The Council's current policy is to hold 3% of General Fund expenditure as balances (equates to £7.9 million at 1 April 2010). It is anticipated that the General Fund balance will stand at £10.8 million at 1 April 2010, which will exceed the 3% level by £2.9 million. This is a change of £2.43 million from the position reported at the end of the last quarter of £8.37 million. The change arises mainly from:

- Increased savings from pay awards (£945,000)
- Improved borrowing position (£815,000)
- Saving associated with the reconsideration of the referendum (£215,000)

A report has been presented to Cabinet/Council recommending site investigations in the south of the Borough for BSF. If these are agreed they will reduce these balances.

FINAL SETTLEMENT

6. The Government on 20 January 2010 confirmed the Provisional Settlement announced in November. With the announcement there was a statement from the Government that it was in the process of capping 4 Police Authorities at the 3% level. This confirming earlier speculation that this was likely to be the tolerated ceiling for council tax increases after the Government had stated it expected increases for 2010/11 to be substantially below 3%.

SBC COUNCIL TAX INCREASES 2010/11

7. When the budget was set for 2009/10, the anticipated council tax increase of 3.9% for 2010/11, in addition to government grant and SBC generated resources, looked to fund a net resource allocation of £155,551,091. Although the recession is placing a strain on the authority in terms of increasing demand for services and loss of income, it is also producing some cost relief in producing smaller pay increases than the inflation factors built into the MTFP. Already in 2009/10 the pay award was at the lower than anticipated figure, averaging 1.12% with the higher increase for lower paid workers. It is generally felt that for 2010/11 the increase will be no greater than 1%. If this is the case the original net resource allocation can be reduced to

£153,312,091. Officers have been pursuing a number of other routes to make savings and a number of these can be applied in the 2010/11 budget setting.

8. The first saving comes from the authority's use of the regional portal to advertise job vacancies instead of newspapers and journals. This will realise £150,000 in 2010/11. The next initiative to deliver savings is the proposed rationalisation of car allowances. After consultation with the Unions and employees a modified proposal has been suggested. This extends the transitional period to two years instead of one and increases the transitional mileage rate from lower to middle casual rate. If agreed these proposals will be implemented from the later date of 1 June 2010. Subsequently the savings to the authority do not arise as quickly as originally envisaged, but after two years the final saving is still the same. Stockton entered into an Agency Contract that is controlled by the Corporate Procurement Unit. Mainly due to reductions in commission rates as part of the tender this is expected to realise savings of £100,000 in the next financial year. Finally Stockton participated in an ICT Hardware E-Auction in the latter part of 2009. Due to the reduced unit prices of IT hardware it is anticipated current volumes of purchase will realise savings of £230,000 in 2010/11. The revised final net resource allocation for 2010/11 after these reductions would be as detailed below.

2010/11	£	£
Resource Allocation @ 1% Pay Rise		153,312,091
Less:		
Recruitment Advertising	150,000	
Car Allowances	70,000	
Agency Contract	100,000	
ICT Hardware E-Auction	230,000	(550,000)
		152,762,091

9. The final settlement means Stockton will receive a grant settlement of £78,196,322 for 2010/11. As stated above the Government is expecting council tax increases to be substantially below 3%, although it gives no indication as to what substantial is. If Stockton was to look at halving its previously proposed increase and implemented a 2% rise in council tax for 2010/11 this would generate resources of £71,468,861 (This is the figure including the increase in the Council Tax Base mentioned in the 14 January report to Cabinet). A 2% rise in council tax equates to an extra 46p a week for a Band D council tax payer. These two combined sources of funds would leave a gap of £3,096,908 against the £152,762,091 resource allocation requirement detailed previously. This would need to be funded from SBC generated resources, and is within the compass of those previously identified in the MTFP in the previous financial year, e.g. insurance fund, grant exit, LATS, that complemented the service efficiencies associated with a supplies and services freeze leading to a reduction in the cost base (this equated to £6 million in efficiencies over the three-year period), as well as the one off resources to fund the minor capital schemes and the last year of the one off schemes from the 2008/09 MTFP.

10. The final position for 2010/11 would appear as follows if the scenario above is implemented.

2010/11	£	£
Resource Allocation Requirement		152,762,091
Resources Available:		
Government Grant	78,196,322	
Council tax @ 2% increase in 2010/11	71,468,861	
SBC Resources	3,096,908	(152,762,091)
		0

This will result in Stockton setting a balanced budget for 2010/11, at the same time as halving its proposed council tax increase, without any reduction in services or a programme of significant job cuts. A position that is far superior to that which most councils are facing during these difficult economic times. This is allied to the situation that Stockton continues to make considerable investment in service provision, the £180 million that will be expended on Building Schools for the Future, the £15 million refurbishment of Billingham Forum, £7 million to be spent on the Primary Capital Programme in 2010/11, and the £7 million Stockton is investing in the Communities Fund that seeks to redress unemployment issues by utilising Voluntary Sector Organisations.

11. It needs to be stated that at this moment in time this balanced budget does not contain any additions to pressures other than those that were incorporated as unavoidable when the MTFP was agreed in February 2009. Services have coped with those pressures by making efficiencies or adaptions to ensure we remain within the approved financial envelope. Based on current projections, this is expected to be the position, however work is ongoing to assess future social care demand pressures along with a range of reviews into how the services are delivered, most notably to the personalisation agenda. There is one emerging potential pressure from the Queen's Speech that may require additional resources to be allocated for part of 2010/11. This is the Government's proposals for free Personal Care for a range of people based upon differing criteria and three options. This requires legislation to be passed before the forthcoming General Election so at this moment in time there is a question mark as to whether it will be implemented or not. If this is implemented it will begin on 1 October 2010 and the current suggested funding model will only be until 31 March 2011. The Government have calculated the financial impact at a national level, and acknowledge in those calculations there is an area of speculative guesswork as to the numbers not claiming care from local authorities, but who will do so once the provision is free. The national estimates are that the total cost of provision will be £335 million for the period in question. The Government will contribute £210 million in grant and expect local authorities to produce the balance of £125 million from efficiencies. Initial analysis of the figures produced for Stockton show that in terms of current care the cost of lost income would be some way below the Government grant, even on the lowest option. However, as at a national level, similarly at Stockton we do not know how many will additionally take up the free care once it is available. In these circumstances for the initial six month period this has the potential to be an additional cost or a saving. More worrying perhaps is that this method of funding is only guaranteed for that six month period stated. There are concerns after that it will become part of the Revenue Support Grant process, and as has been seen in the past, once a function becomes subsumed in the four block calculation actually tracking where that money has gone is very difficult. Inevitably these transitions have resulted in cost pressures on authorities. The impact of these changes and work surrounding social care in particular, will inform future years of the MTFP.

2011/12 ONWARDS

12. As we move into 2011/12 the picture becomes a lot less certain and gloomier. The Comprehensive Spending Review that was scheduled for summer 2009 was cancelled. When the Provisional Settlement was announced on 26 November 2009 there was no indication to likely grant settlements for the next three year period. What has been stated quite openly is that Public Sector Expenditure will need to be reduced to help pay back the current high levels of national debt, and talks of council tax increase freezes have been regular. In the absence of any definitive data Stockton must make a calculated estimate of the possible impact on its revenue resource stream for the two financial years after 2010/11. For illustrative purposes following projections are that revenue support grant will be reduced by 3.333% year on year, and that council tax increases will be frozen for 2011/12 and 2012/13. Research and networking with other councils has shown a wide disparity in the assumptions councils are making. It is felt that some of the extreme projections put forward are a reaction to media hype and speculation. In the absence of any Government data it has been very difficult to project future years' financial resources. It is felt however that the assumptions outlined above are realistic.

13. Based upon these assumptions the grant income for 2011/12 would be £75,589,778 and council tax would raise £71,468,861 resulting in total external funding to the General Fund of £147,058,639. If the budget detailed earlier for 2010/11 was implemented, the starting point for resource allocation would be £152,762,091, before inflation allowances increased it to £156,008,676. This would result in an initial gross budget gap of £8,950,037. As is the Stockton way, plans and actions were initiated some time ago to mitigate this anticipated situation. Savings from the first year of the Efficiency Improvement and Transformation Programme and other suggestions for operational efficiencies will deliver a total of £4,048,000. A schedule of these proposals is included at **Appendix A**. The authority has also embarked on the process of Procurement Category Management in twelve priority areas for goods and services the council procures. This process included category aggregation, the management of demand and updating of market intelligence with a view to influencing this more. It is envisaged that this approach will deliver £1 million in savings. A schedule of the twelve chosen categories and progress to date is attached at **Appendix B**. During 2011/12 the second stage of the car allowance proposals is scheduled to occur, on the revised basis this will result in an additional £470,000. Finally, it is anticipated that the pay increase in 2011/12 will remain at 1%, delivering an additional £1.3 million in resource reduction. These measures narrow the budget gap to £2,132,037 to be funded from SBC resources. This figure is again within the compass of the figure originally approved in February 2009. The summary position for 2011/12 is provided in the table below:

2011/12	£	£
2010/11 Resource Allocation		152,762,091
2011/12 Inflation Increase		3,246,585
		156,008,676
Resource Reductions:		
EIT Year 1 / Operational Efficiencies	4,048,000	
Procurement	1,000,000	
Car Allowances	470,000	
1% Pay Award	1,300,000	(6,818,000)
		149,190,676
Resource Available:		
Grant	75,589,778	
Council Tax	71,468,861	
SBC Resource	2,132,037	149,190,676
		0

The Pre-Budget Report 9 December 2009 raised the possibility of another potential pressure from 2011/12 onwards. If this Government is re-elected in the forthcoming General Election they intend to raise national insurance contributions for both employers and employees by 1% with effect from 1 April 2011. (For employees those earning below £20,000 will be exempt). It is impossible at this stage for Stockton to accurately predict its pay bill at that date, but the increase should it be implemented would bring a cost pressure of approximately £800,000 to the authority. Again at this point it should be noted the budget figures still only include those known budget pressures that were deemed unavoidable when the 2009/10 MTFP was agreed.

14. As we move into 2012/13 some additional assumptions have to be made. Members will recall in the 2009/10 MTFP we reduced the amount earned on investment income, with £1.9 million of ongoing resource and £1.6 million of one-off funds being used to balance the budget. Indications from the Bank of England are that interest rates should start to rise in 2011/12 and by 2012/13 be back to the level to allow us to return our target figure to its original level. Clearly this is a long way into the future to predict with any accuracy, but the assumption being made is that this will happen. Another assumption for 2012/13 is related to the minor capital schemes: environmental improvements £400K; disabled adaptations £250K; repairs and

maintenance £400K; cemeteries £150K; highways £150K. These are funded in the MTFP up until 2011/12, at this moment in time it is assumed this funding will not continue in 2012/13. The era of being able to allocate additional headroom monies for improvements is likely to disappear if these projections are correct. A cautious approach to extending expenditure beyond core service provision at least until the settlements for 2011/12 onwards are known is advised. Stockton is in the strong financial position of today because it has not extended itself beyond its means in the past. Until some certainty appears about the picture from April 2011, it is imperative that approach is continued.

15. Assuming the above projections are correct and implemented, the rise in resource allocation for 2012/13 is only £1,003,809, taking account of the return to investment income targets and the fall out of the minor capital expenditure. This produces a starting point of £150,194,485. The projections for grant and council tax are £72,983,234 and £71,468,861 respectively giving a total of £144,452,095 for external resource. Some of those operational efficiencies identified by officers will not be available until 2012/13. These amount to £352,000 and these can be used to reduce the starting figure. In addition there is now in 2012/13 the saving from the final phase of the car allowance proposals amounting to £260,000. As the last MTFP did not extend until 2012/13 there was no estimate of SBC resource available for that year. It is anticipated that there will be £3.4 million of resource that will be available in year. The first element of this is a contribution of £1.9 million from the insurance fund. The second element is an estimated surplus of £500,000 from the collection fund. The final element is associated with employers pension contributions. Due to stock market falls the Government asked for an interim valuation of the latter. This showed that the Teesside Pension Fund is weathering the storm very well and if this is repeated in the formal valuation the £1 million that was anticipated to fund the fall in valuation of the fund will not be required for that purpose and can be utilised in the MTFP instead. Again a development in the Pre-Budget Report now raises a potential problem with this proposal. It has been announced there is to be a cap on employers contributions to pension funds with effect from 2012/13. The proposal does not say whether the cap will be national or local, nor at what level it will be. It does however have the potential to impact on the calculation undertaken to release this million. It was said at the start of assessing the two years from 2011/12 there was a large degree of uncertainty over predicted figures, and with each Government announcement these are being added to rather than clarified. If however the previous predictions do occur the net budget gap that would need to be found from efficiencies is £1,730,390. Again in anticipation of this initiatives on partnering with other authorities, joined up services within the Council and the proposed EIT Year 2 programme are being put in place, and based upon previous successes should be capable of delivering the required efficiencies. Details are provided at **Appendix I**. This would leave Stockton in the position for 2012/13 of achieving a balanced budget based upon the planned and managed approach outlined. A position that is sure to be the envy of many other councils who are not in such a healthy financial state.

2012/13	£	£
2012/13 Resource Allocation		150,194,485
Resource Reductions:		
Car Allowance		(260,000)
Operational Efficiencies		(352,000)
EIT Year 2 / Partnering / Joined up services		(1,730,390)
		147,852,095
Resource Available:		
Grant	72,983,234	
Council Tax	71,468,861	
SBC Resource	3,400,000	147,852,095
		0

If all of these assumptions are correct, Stockton will have moved from an anticipated resource allocation in 2012/13 of £159.8 million to one of £147.8 million, a reduction of £12.0 million delivered from efficiencies or generating resource. These are additional to the many millions of pounds of efficiencies Stockton has made in previous MTFP's. If these same levels of reduction in resources were to continue in 2013/14, it is difficult to contemplate the gap continuing to be closed in the same manner and a programme of service / job cuts would be hard to avoid. All the figures discussed previously are based upon a possible 2% Council Tax Increase in 2010/11.

16. It has been mentioned earlier in the report that Stockton is going to have some additional one-off resource available from 2009/10. Currently this is estimated to be in the region of £4.5 million, only at year end will a definite figure be known. It has been past practice in the era of year on year grant increases and headroom, to allocate this money to time limited projects and initiatives. Give the uncertainty about future funding levels, potential pressures such as 'Personal Care at Home' and the National Insurance proposal, and the need with some efficiency measures to invest to save, it is considered prudent not to agree any use of this resource in that manner until the grant settlements for 2011/12 are known, when a more informed choice can be made about the utilisation of any such resources.

TAXATION

Stockton Precept

17. Stockton's current tax level for 2009/10 at Band A (the biggest percentage of its properties) is £798.39 (£15.35 per week). The impact of a 2.0% increase is shown below:

	Band A	Band D
2009/10	798.39	1197.58
2010/11	814.35	1221.53

Police Precept

18. The Council has been notified that the Police Authority will not be meeting to set their council tax until 25th February 2010. It is anticipated the Police Authority will recommend a precept of £10,989,972, £125.23 at Band A (£187.84 at Band D) which equates to a 2.94% increase in Council Tax based on a Band A figure of £121.65 for 2009/10 (£182.47 at Band D). The table below shows the recommended rise of the Police Authority. If, following their meeting, the Police Authority approve a different figure then an item will be placed on the agenda of the Council meeting on 3rd March to set the aggregate council tax for the Borough. This is in line with legislation and is necessary for council tax billing purposes.

	Band A	Band D
2009/10	121.65	182.47
2010/11	125.23	187.84

Fire Authority

19. The Fire Authority has determined a precept of £3,742,736, £42.65 at Band A (£63.97 at Band D) which equates to a 3.9% increase in Council Tax based on a Band A figure of £41.05 for 2009/10 (£61.57 at Band D).

	Band A	Band D
2009/10	41.05	61.57
2010/11	42.65	63.97

Parishes

20. Details of the Parish precepts are given below:

Parish	2009/10	2010/11	Increase £	%
Aislaby & Newsham	0	0	0	0.00
Carlton	4,350	4,350	0	0.00
Castleleavington & Kirklevington	15,000	10,900	(4,100)	(27.33)
Egglescliffe & Eaglescliffe	73,135	74,260	1,125	1.54
Elton	0	0	0	0
Grindon	7,250	6,000	(1250)	(17.24)
Hilton	1,500	1,810	310	20.67
Ingleby Barwick	107,615	107,615	0	0
Long Newton	6,000	6,500	500	8.33
Maltby	2,000	2,000	0	0
Preston	5,500	5,500	0	0
Redmarshall	2,500	1,500	(1000)	(40.00)
Stillington & Whitton	6,750	7,500	750	11.11
Thornaby	139,700	139,700	0	0
Wolviston	10,274	10,582	308	3.00
Yarm	78,000	91,550	13,550	17.37
Billingham	103,874	112,793	8,919	8.59
Totals	563,448	582,560	19,112	-

Overall Tax Position

21. Stockton Borough Council is required to collect tax on behalf of 4 independent organisations:

    The Council
    Police
    Fire
    Parishes

22. The position assuming Stockton Borough Council sets its budget requirement at £150,996,155 is given below;

Tax 2010/11			
	Current 2009/10 (Band A) £	Proposed 2010/11 (Band A) £	Increase %
Police	121.65	125.23	2.94
Fire	41.05	42.65	3.90
Stockton BC	798.39	814.35	2.0

Formal Tax Recommendations

23. The Council must approve precept/tax in line with statutory guidelines. These are contained at **Appendix C**.

TREASURY MANAGEMENT STRATEGY

24. The 2009/10 MTFP highlighted the difficulties associated with investing funds and a subsequent reduction in interest yield was factored into budgets through to the financial year 2011/12. The current application of the Investment Strategy only allows investments with British based institutions. Only those rated AA and above can be utilised for investments over 12 months and up to 3 years. For short term deposits up to 12 months ratings need to be F2/P2 or above. In practical terms however placements have generally been much shorter the majority in the region of 3 – 4 months thus limiting the exposure to any collapse of an institution. The current practical implementation of the strategy is now beginning to cause a problem in rates of return. Going into 2009/10 a reasonable proportion of our investments were at higher rates obtained before the dramatic fall in the base rate, these will have in the main expired by 2010/11. To compound this although the base rate has been at 0.5% for some time the investment rates offered have fallen quite considerably in recent months. Six months ago we would have been able to obtain 2% for a three month placement. We are now being quoted rates below our regular call accounts which earn 0.8% and 0.75% respectively. If we are to continue with the current strategy and its implementation, and rates do not improve, a shortfall against target of over £1 million is possible for 2010/11.

25. It is believed however some changes can be made to the strategy and its implementation that will improve the situation without causing undue risk. The first change is with regard to the implementation of the up to 12 months placements. It is proposed that more of these are in 6, 9 and 12 months range. Clearly longer placements mean the institution has to remain solvent for that longer period. However since the Icelandic crisis none of the institutions we have placed money with have become insolvent. Indeed none of the seven institutions we have stopped using because of ratings, or media concern, have either. This is not a guarantee it will not happen in the future, but as the country now appears to be over the worst of the recession, that risk should have diminished. The other proposed changes are to the strategy. We currently only have two AA rated British institutions on our counterparty list, Barclays and HSBC. As other parts of the world have come out of recession quicker than ourselves, it is worth considering those from other countries that are AA rated and we think are sound investment possibilities. Santander is a company that is currently AA rated and already on our list. This was as a consequence of taking over two British banks. However because Santander are Spanish at this moment in time we do not use them. It is suggested from 2010/11 we do so where appropriate. Handelsbanken (Sweden) and Bank of Australia (not its subsidiaries) are two that are AA and we think are safe to use. It is also suggested there are some changes to the investment limits to allow greater flexibility. It is proposed for the AA rated institutions this should be £30 million, currently £20 million, and that the Nationwide Building Society is increased from £15 million to £20 million.

26. These changes will allow greater flexibility in the investment income function and offer the potential for increased returns. Even before the Icelandic crisis there was risk in investments and these proposals cannot be guaranteed risk proof, however it is the opinion of officers that the risk associated with these is low and it is recommended that the proposals are implemented. It is understood that Members may not want to take even what is considered to be a low risk and may wish to remain with the current process. If this is the case the quarterly reports to Audit Committee will indicate the impact on investment returns and any potential call on one-off resource. This report has advocated non-use of this resource for such potential calls on it.

27. Attached at **Appendix D** is the formal Treasury Management Strategy for 2010/11. This includes the adoption of the revised CIPFA Code of Practice on Treasury Management following the problems encountered during the Icelandic crisis.

CAPITAL

28. The Capital budget for 2009/10 is outlined in the following table:

	Approved Budget £000's	Revised Budget £000's	Projected Outturn £000's	Variance £000's
Children, Education and Social Care	15,805	15,806	15,406	(400)
Development & Neighbourhood Services	40,875	41,502	38,381	(3,121)
Resources (inc Law & Democracy)	2,566	2,696	1,619	(1,077)
Total Programme	59,246	60,004	55,406	(4,598)

This movement includes cost savings of £(368,000) and re-profiling of approved schemes of £(4,229,000), the reasons are as follows:

Children, Education and Social Care	**£000's**
Preston Hall - The project has been delayed due to severe weather conditions.	(400)
Development and Neighbourhood Services	**£000's**
Town Centre Acquisitions – Funding associated with town centre acquisitions will not be spent in the current financial year.	(261)
Stockton Middlesbrough Initiative – The start date for the White Water Course scheme has been delayed until the developer agreement could be finalised. The scheme has now started, although the majority of spend will be incurred in 2010/11.	(1,071)
Newham Grange Park – Consultation has now begun regarding the scope of the scheme, therefore it will not be completed until 2010/11.	(100)
Blue Hall Recreation Ground – Work is currently on-going with the scheme will be carried out in 2010/11.	(100)
Hardwick Regeneration – Savings on the final account of the construction of the new school are being carried forward to 2010/11 for landscaping works in the summer. Also a number of repurchases have been delayed due to pursuing CPO's.	(172)
Mandale Regeneration – A number of repurchases have been delayed due to pursuing CPO's.	(185)
Delegated to Tristar Programme – High rise structural maintenance surveys have been carried out and the extent of the required works is less than anticipated.	(219)
Delegated to Tristar Programme – The requirement for surveys on the high rise flats and delays in the tendering process for a number of schemes have led to schemes commencing in 2010/11.	(750)
Resources	**£000's**
Corporate Systems Support – Work is currently ongoing to agree a final solution for the server virtualisation scheme. The other projects within this area are dependant upon the outcome of this. The schemes will start in 2010/11.	(946)

Access to Services – Delays in services transferring over to the contact centre due to reviews currently being undertaken in the council, have delayed the need for ICT expenditure.	(106)

29. In order to achieve the Government's Decent Homes Standard works requirement, the Council has a rationalisation programme. The 2010/11 stock rationalisation programme has been taken from the Building Cost Model prepared by Tristar Homes Limited, which proposes demolishing 99 properties as shown at **Appendix E.** This approval will enable the Council to maximise its receipt of subsidy from Communities and Local Government (CLG).

30. The Medium Term Capital Plan for 2010/11 onwards is attached at **Appendix F** and includes the following Government funding allocations:-

	2010/2011
Adult Services	266,131
Children's Services	13,815,270
Transport	3,886,000
Housing	12,076,530
Waste Infrastructure	123,000
Community Protection	31,000
	30,197,931

The Medium Term Capital Plan includes only known funding allocations and approved schemes. Given that the future funding levels in respect of the above Government allocation have not been confirmed, these have not been included in the current plans. These will be added into the MTFP when future funding is known.

In addition the Council has available Capital Resources of £250,000 generated from Capital Receipts. Given the current financial climate outlined within this report, it is recommended this be retained at this point in time.

HOUSING REVENUE ACCOUNT

31. The projected position for the Housing Revenue Account is in line with the budgeted surplus of £1.3 million at 31 March 2010. The 2010/11 HRA Budget is attached at **Appendix G.**

32. Included at **Appendix H** is the proposed Council Rent Increase for 2010/11. The proposed increase is an average 2.48% equating to a monetary rise of £1.59 per week.

Appendix A

EIT Year 1 / Operational Efficiencies

CESC			
No.	Description		Amount £'000
EIT YEAR 1			
Targeted Savings			1,210
EIT YEAR 1 TOTAL			**1,210**
OPERATIONAL EFFICIENCIES			
1	Establishment Charges		633
Vacancies/Overtime		372	
Restructures (9.5 FTE)		261	
2	Service Changes		227
Libraries – Priority Service/Rationalisation		127	
Parenting Support		60	
Non-Renewal of ACE Contract		17	
Funding Changes		23	
3	Running Costs Reduction		17

OPERATIONAL EFFICIENCIES TOTAL	**877**
CESC EIT YEAR 1	**1,210**
CESC OPERATIONAL EFFICIENCIES	**877**
CESC TOTAL	**2,087**

D&NS P			
No.	Description		Amount £'000
EIT YEAR 1			
Highways, Lighting Network			200
Targeted Savings			270
EIT YEAR 1 TOTAL			**470**
OPERATIONAL EFFICIENCIES			
1	Establishment Changes		156
Vacancies/Overtime		73	
Restructure 3 FTE		83	
2	Service Changes		501
TVR/JSU Merge Economies		108	
Reshape Traffic Modelling		25	
Partnership Approach Clarences Farm		100	
Alignment of Contribution PCSO's		125	
Share Specialist Services with other LA's		50	
Funding Changes		17	
Waste – Rubbish Disposal Facility Change		76	
3	Running Costs Reduction		76

OPERATIONAL EFFICIENCIES TOTAL	**733**
D&NS EIT YEAR 1	**470**
D&NS OPERATIONAL EFFICIENCIES	**733**
D&NS TOTAL	**1,203**

RESOURCES			
No.	Description		Amount £'000
OPERATIONAL EFFICIENCIES			
1	Establishment Changes		204
Vacancies/Overtime		54	
Restructure 3.5 FTE		150	
2	Service Changes		108
Bayheath House Prudential Borrowing		28	
Re-alignment of Service Delivery Agresso 5.5		50	
Funding Change		30	
3	Running Costs Reduction		48
OPERATIONAL EFFICIENCIES			**360**
RESOURCES TOTAL:			**360**

CROSS CUTTING EIT REVIEW			
No.	Description	Service Area	Amount £'000
Public & Community Transport		DANS/ CESC	150
Communications/Consultation and Engagement		Cross Cutting	300
Property & Facilities Management		Cross Cutting	300
CROSS CUTTING EIT REVIEW TOTAL			**750**

SUMMARY OF EIT YEAR 1 / OPERATIONAL EFFICIENCIES

	EIT YEAR 1 £'000	OPERATIONAL EFFICIENCIES £'000			TOTAL £'000
		1	2	3	
CESC	1,210	633	227	17	**2,087**
D&NS	450	156	501	76	**1,203**
RESOURCES	N/A	204	108	48	**360**
CROSS CUTTING EIT REVIEW	750				**750**
TOTAL	**2,410**	**1,120**	**726**	**141**	**4,400**
				2011/12	**4,048**
				2012/13	**352**

1. ESTABLISHMENT CHANGES
These changes are from vacancies held open in light of the current financial situation, reductions in areas such as overtime, or structure rationalisation.

2. SERVICE CHANGES
Savings as a consequence of changing the way a service is delivered, or changing current charging methods.

3. RUNNING COSTS REDUCTION
A reduction in budgets that aids running a service, due to having been evaluated for previous pressures. The contribution from this area is much smaller as might be anticipated.

Appendix B

PROCUREMENT CATEGORIES – SUMMARY POSITION WEEK ENDING 4th Dec 2009

Category	Expenditure	Category Team	Initiation	Insight	Innovation	Implementation	Improvement	Comments
Advertising, PR, Print & Marketing	£1,489,295 (validated)	M Skipsey B Brown A Lench G Costello	Spend analysis validation complete	Requirements Data gathering commenced. Specifications currently being developed.	Multi-supplier frameworks with mini-competition process.			Xentrall D&P now engaged
Building Construction Materials (HVE)	£1,751,308	M Skipsey M Scott D Robinson D Jackson	Kick off meeting held with team. Spend analysis validation complete.	Very dynamic market based on commodities.				Need agile solution to meet requirements. Need to influence the design spec. In House Street Lighting?
Highway Equipment & Materials	£2,451,284 (validated)	M Skipsey R Bradley R Burrell C Willows I Pollitt M Chicken M Newbould L Thornton	Kick off meeting complete. Spend analysis validation complete.					New rock salt contract with savings.
Facilities Management		M Skipsey ???	Spend analysis validation started					
Foster Care with Independent Agencies	£1,924,914	M Skipsey Jackie Ward? Lynn Sparrey?			M'bro Framework Agreement	Trying to arrange a meeting to discuss implementing M'bro framework		

Category	Expenditure	Category Team	Initiation	Insight	Innovation	Implementation	Improvement	Comments
Catering	£1,296,512	A Lench L Thornton A Brown Sub-regional catering managers			Food Supply Contract Review complete	Planning for new contracts.		
Social Care Adults	£15,789,525	M Skipsey M Graham M Smiles T McPartland	Meeting with L Hanley scheduled to kick off. Spend analysis validation started in MH/LD.					
Consultancy	£2,363,586							OGC category currently under review.
Training & Conferences	£954,551							
Leisure Services	£1,211,334							
Medical	£435,061							
Traffic Management	£444,418							
Transport	£4,801,674							R&C Framework

Appendix C

Council Tax Recommendations

A. Members are invited to **Note** that :

1. The Council calculated as its Council Tax Base for the year, in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (the Regulations) made under Section 33(5) of the Local Government Finance Act 1992 (the Act), and reported to the Leader and Cabinet Member for Corporate & Social Inclusion on ??

Tax Base approved under the Scheme of Delegation on the ??

a) the amount calculated by the Council in accordance with regulation 3 of the Regulations, as its Council Tax Base for the year : **58,507.67**

b) the amounts, calculated by the Council in accordance with regulation 6 of the Regulations, as the amounts of its Council Tax Base for the year for dwellings in those parts of its areas to which one or more special items relate.

Part of the Council's Area	**Tax Base**
Aislaby & Newsham	93.88
Carlton	294.00
Castleleavington / Kirklevington	498.72
Egglescliffe & Eaglescliffe	3,058.58
Elton	137.69
Grindon	1,261.95
Hilton	215.01
Ingleby Barwick	6,709.37
Long Newton	329.67
Maltby	149.94
Preston	598.29
Redmarshall	148.57
Stillington & Whitton	357.31
Thornaby	6,619.70
Wolviston	388.86
Yarm	3,287.80
Billingham	10,220.52

2. The amounts for the year that were approved by the Council on **??** in accordance with Section 32 of the Act :

a) The aggregate amount that the Council estimates for the items set out in Section 32(2) (a) to (e) of the Act : **??**

The Council's total expenditure for the year including Parish Precepts.

b) The aggregate amount that the Council estimates for the items set out in Section 32(3) (a) to (c) of the Act : **??**

The total income to be raised by the Council in the year plus movement on revenue balances.

c) The amount by which the aggregate at 2 a) above exceeds the aggregate at 2 b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year : **£151,578,715**

The Council's Budget Requirement for the year.

B. Members are **Recommended** to approve the following amounts now calculated by the Council for the year in accordance with Sections 32 to 36 of the Act :

3. The aggregate of the sums that the Council estimates will be payable for the year into its General Fund in respect of redistributed non-domestic rates, revenue support grant and surplus on the Collection Fund : **£79,527,282**

Government contribution towards General Fund expenditure, adjusted for Collection Fund balances

4. The basic amount of Council Tax for the year, being the amount at 2.c) above less the amount at 3. Above, divided by the amount at 1.a) above, calculated in accordance with Section 33(1) of the Act : **£1,231.49**

The average Tax at Band D, including the Parish precepts.

5. The aggregate amount of all special items referred to in Section 34(1) of the Act : **£582,560**

The total of all Parish precepts.

5. The basic amount of Council Tax for those parts of the area to which no special items relate: **£1,221.53**

Stockton-on-Tees Borough's Basic Tax

C. Members are invited to **Note**

7. Parish Precepts are:

Part of the Council's Area	**2010/2011 Precept**	**Band D Equivalent**
	£	**£**
Aislaby & Newsham	0	0.00
Carlton	4,350	14.80
Castleleavington / Kirklevingt	10,900	21.86
Egglescliffe & Eaglescliffe	74,260	24.28
Elton	0	0.00
Grindon	6,000	4.75
Hilton	1,810	8.42
Ingleby Barwick	107,615	16.04
Long Newton	6,500	19.72
Maltby	2,000	13.34
Preston	5,500	9.19
Redmarshall	1,500	10.10
Stillington & Whitton	7,500	20.99
Thornaby	139,700	21.10
Wolviston	10,582	27.21
Yarm	91,550	27.85
Billingham	112,793	11.04
	582,560	

8. Cleveland Police Authority has stated the sum of **£10,989,972** in a precept issued to the Council in accordance with Section 40 of the Act; this translates into the following sums for each Council Tax Band :

Band	Sum £
A	**125.23**
B	**146.10**
C	**166.97**
D	**187.84**
E	**229.58**
F	**271.32**
G	**313.07**
H	**375.68**

Cleveland Police Authority Tax.

9. Cleveland Fire Authority has stated the sum of **£3,742,736** in a precept issued to the Council in accordance with Section 40 of the Act: this translates into the following sums for each Council Tax Band:

Cleveland Fire Authority Tax

Band	Sum £
A	**42.65**
B	**49.75**
C	**56.86**
D	**63.97**
E	**78.19**
F	**92.40**
G	**106.62**
H	**127.94**

D. Members are **Recommended** to set amounts of Council Tax for the year, being the aggregate of items 6, 7 and 8 above in accordance with Section 32(2) of the Act, for each category of dwelling in each area as shown as shown at **Appendix ??(1),??(2),??(3)**.

Total Council Tax bill levels, including Borough, Police Authority, Fire Authority and Parish elements.

APPENDIX D

PRUDENTIAL CODE AND TREASURY MANAGEMENT STRATEGY

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators, and introduces new indicators for 2012/13.
2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, as it will directly impact on borrowing or investment activity. As a consequence the Treasury Management Strategy for 2010/11 to 2012/13 is included in this report to complement these indicators. The production of a Treasury Management Strategy is a requirement of the CIPFA Code of Practice on Treasury Management. Compliance with this Code is a requirement of the Prudential Code.

The Council's Capital Expenditure Plans

3. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; anything above this level will be unsupported and will need to be financed from the Council's own resources. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.
4. The Council is recommended to approve the summary capital expenditure projections below; service details are shown in the main budget report. This forms the first prudential indicator**:**

	2009/10 Original £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Capital Expenditure					
Non-HRA	59,848	47,940	35,821	8,710	674
HRA	8,673	7,466	16,772	3,285	4,584
Total spend	68,521	55,406	52,593	11,995	5,258
Government Support excluding Credit Approvals	29,227	19,894	22,792	0	0
Other Grants	1,466	2,876	9,536	6,369	3,407
Council Resources	10,232	7,585	5,286	2,378	309
Earmarked Capital Receipts	7,896	2,895	1,892	707	1,403
Capital Contributions	2,421	1,624	111	240	0
Revenue	2,523	3,543	1,153	1016	0
Net financing need (borrowing) for the year	14,756	16,989	11,823	1,285	139
(of which Prudential Borrowing)	7,868	10,119	5,903	1,285	139

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

5. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.
6. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments. There is no such requirement for Housing capital spend.
7. The Department of Communities & Local Government regulations require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision.
8. The Council is recommended to approve the following MRP Statement.
9. For capital expenditure incurred before 1st April 2008 or which in future will be Supported Capital Expenditure, the MRP policy will be:
   - MRP will follow the existing practice outlined in former CLG Regulations;
10. From 1st April 2008 for all unsupported borrowing the MRP policy will be:
    - Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Directive);
11. The Council is recommended to approve the CFR projections below:

	2009/10 Original £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Capital Financing Requirement					
CFR – Non Housing	139,628	123,420	127,505	123,690	119,399
CFR - Housing	122,691	139,628	140,839	140,838	140,838
Total CFR	**262,319**	**263,048**	**268,344**	**264,528**	**259,719**
Movement in CFR	**6,814**	**9,409**	**5,296**	**(3,816)**	**(4,809)**

Movement in CFR represented by					
Net financing need for the year (above)	14,857	16,989	11,823	1,285	139
MRP/VRP and other financing movements	(8,043)	(7,580)	(6,527)	(5,101)	(4,948)
Movement in CFR	**6,814**	**9,409**	**5,296**	**(3,816)**	**(4,809)**

Affordability Prudential Indicators

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

13. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The Council has taken the net revenue stream for the General Fund as being the Net Budget Requirement, and for the Housing Revenue Account the gross income to the account.

	2009/10 Original %	2009/10 Revised %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
Non-HRA	2.7	2.7	3.2	3.1	2.4
HRA	22.0	22.7	22.3	22.0	20.5

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

15. **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support.

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

	Forward Projection 2010/11 £	Forward Projection 2011/12 £	Forward Projection 2012/13 £
Council Tax - Band D	1.33	4.76	4.76

17. **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. The current indicator only covers supported borrowing which is fully funded through Housing Subsidy. Any unsupported borrowing taken out by the Council in the future may impact on rent levels, however, rent increases are controlled by government guidelines and allowable rent increases have been built into the Medium Term Financial Plan.

18. Incremental impact of capital investment decisions Housing Rent levels

	Forward Projection 2010/11 £	Forward Projection 2011/12 £	Forward Projection 2012/13 £
Weekly Housing Rent levels	0	0	0

TREASURY MANAGEMENT STRATEGY 2010/11 – 2012/13

1. The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators above consider the affordability and impact of capital expenditure decisions the treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets the balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy which require approval.
2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). This Council adopted the original Code of Practice on Treasury Management on 6th March 2002 and as part of this budget report will also adopt the revised Code.
3. As a result of adopting the Code the Council also adopted a Treasury Management Policy Statement. This adoption is the requirements of one of the prudential indicators. However the revised Code of Practice has amended the Treasury Management Policy Statement and this is appended at Annex A for approval.
4. The Council is required to approve an annual strategy outlining the expected treasury activity for the forthcoming three years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year. In year reports are also submitted to Audit Committee on a regular basis.
5. This strategy covers:
   - The Council's debt and investment projections;
   - The expected movement in interest rates;
   - The Council's borrowing and investment strategies;
   - Treasury performance indicators;
   - Specific limits on treasury activities.

Debt and Investment Projections 2010/11 – 2012/13

6. The borrowing requirement comprises the expected movement in the CFR and any maturing debt, which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances.

	2009/10 Original £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
External Debt					
Debt at 1 April	258,712	258,712	258,397	268,373	267,277
Maturing Debt	(312)	(315)	(1,324)	(1,096)	(6,258)
New Debt taken/to be taken out	3,997	0	11,300	0	0
Debt at 31 March	262,397	258,397	268,373	267,277	261,019
Annual change in debt	3,685	(315)	9,976	(1,096)	(6,258)
(under)/over borrowed	78	(4,651)	29	2,749	1,300
Total Investments at 31	114,000	116,000	116,000	116,000	116,000

March					
Investment change	(115)	2,000	0	0	0

7. The related impact of the above movements on the revenue budget are:

	2009/10 Original £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Revenue Budgets					
Interest on Borrowing	14,717	14,768	15,001	15,018	15,010
Related HRA Charge	7,813	(7,799)	(7,839)	(7,831)	(7,802)
Net general Fund Borrowing Cost	6,904	6,969	7,161	7,187	7,208
Investment income	3,035	3,200	2,300	2,300	4,225

Limits to Borrowing Activity

8. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits.

9. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

	2009/10 Revised £'000	2010/11 Estimated £'000	2011/12 Estimated £'000	2012/13 Estimated £'000
Gross Borrowing	258,712	268,373	267,277	261,019
Investments	116,000	116,000	116,000	116,000
Net Borrowing	142,712	152,373	151,277	145,019
CFR	263,048	268,344	264,528	259,719

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

11. A further two prudential indicators control or anticipate the overall level of borrowing. These are:

12. **The Authorised Limit for External Debt –** This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

13. **The Operational Boundary for External** Debt **–**This indicator is based on the expected maximum external debt during the course of the year; it is not a limit. Actual borrowing could vary around this boundary for short periods during the year. It acts as a monitoring indicator to ensure the Authorised Limit is not breached.

14. The Council is recommended to approve the following Authorised Limit and Operational Boundary:

Authorised limit	**2009/10 Revised £'000**	**2010/11 Estimated £'000**	**2011/12 Estimated £'000**	**2012/13 Estimated £'000**
Borrowing	296,800	310,800	314,800	316,800
Other long term liabilities	0	0	0	0
Total	296,800	310,800	314,800	316,800
Operational Boundary				
Borrowing	273,000	287,000	291,000	293,000
Other long term liabilities	0	0	0	0
Total	273,000	287,000	291,000	293,000

15. Borrowing in advance of need - The Council has some flexibility to borrow funds for use in future years. The Corporate Director of Resources may do this under delegated powers where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial. Whilst the Corporate Director of Resources will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

Expected Movement in Interest Rates

16. Short-term rates are expected to remain on hold for a considerable time. The latest figures show that the recovery in the economy has commenced but it could remain weak for some time. There is a danger that an early reversal of interest rate and Quantitative Easing policy could trigger a dip back into recession and a "W" shaped recovery.

17. The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the increases in taxation already scheduled for 2010 – the return of VAT to 17.5% and increases in National Insurance. Without a rebound in this key element of UK Gross Domestic Product, any recovery in the economy is set to be weak and protracted.

18. Inflation is set to remain subdued in the next few years – though a sharp blip is forecast for the next few months, the pressure on the Monetary Policy Committee to raise rates is expected to remain moderate.

19. The outlook for long-term fixed interest rates is a lot less favourable. While the UK's fiscal burden should ease in the future, this will be a lengthy process and deficits over the next two to three financial years will require a very heavy programme of gilt issuance. The market will not be able to rely on the Quantitative Easing Programme to alleviate this enormous burden. The absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper. That incentive will take the form of higher interest rates.

20. The expected movement in interest rates are as follows:-

Annual Average %	Base Rate %
2008/09	3.9
2009/10	0.5
2010/11	1.0
2011/12	2.0
2012/13	4.5

Borrowing Strategy 2010/11 – 2012/13

21. The uncertainty over future interest rate increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

22. Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Corporate Director of Resources, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rate borrowing may provide lower cost opportunities in the short to medium term.

23. With the likelihood of long term rates increasing, any debt restructuring is likely to focus on switching from longer term fixed rates to cheaper short term debt, although the Corporate Director of Resources and treasury consultants will monitor prevailing rates for any opportunities during the year.

24. The option of postponing borrowing and running down investment balances will also be considered. This could reduce counter-party risk and also mitigate against any expected fall in investment returns.

25. The expected borrowing requirement over the medium term is:-

	2010/11 Estimated £'000	2011/12 Estimated £'000	2012/13 Estimated £'000
Movement in CFR	5,296	(3,816)	(4,809)
Maturing Debt	(1,324)	(1,096)	(6,258)
Borrowed in Advance	(4,651)	29	0
Total Borrowing need	11,300	(2,749)	1,449

Investment Strategy 2010/11 – 2012/13

26. **Key Objectives** - The Council's investment strategy primary objectives (in order) are:-

    1) safeguarding the re-payment of the principal and interest of its investments on time;
    2) ensuring adequate liquidity, and finally
    3) the investment return.

    Following the economic background above, the current investment climate has one over-riding risk consideration, that of counter-party security risk.

27. **Investment Counter-party Selection Criteria** - The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:-

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

28. The Corporate Director of Resources will maintain a counter-party list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counter-parties considered high quality the Council may use rather than defining what its investments are.

29. The rating criteria use the lowest common denominator method of selecting counter-parties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

30. Credit rating information is supplied by our treasury consultants on all active counter-parties that comply with the criteria below. Any counter-party failing to meet the criteria would be omitted from the counter-party (dealing) list. Any rating changes, rating watches (notifications of a likely change), rating outlooks (notification of a possible longer term change) are supplied almost immediately after they occur. This information is considered by Council Officers before dealing.

31. The criteria for providing a pool of high quality investment counter-parties (both Specified and Non-specified investments) is:-

- **Banks 1– Good Credit Quality** - the Council will only use banks which:
  - Are UK banks: and/or
  - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA

And have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

- Short Term – F2/P2/A-2
- Long Term – AA-/Aa3/AA-
- **Banks 2-Guarantted Banks with suitable Sovereign Support** - In addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:-

  (a) wholesale deposits in the bank are covered by a government guarantee;

  (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and

  (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- **Banks 3-Eligible Institutions** – the organisation is an Eligible Institution for HM Treasury Credit Guarantee Scheme initially announced on 13th October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.

- **Banks 4**-The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- **Bank Subsidiary and Treasury Operations-**the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies–**the Council will use all Societies which;-

  (a**)** meet the ratings for banks outlined above, or

  (b) have assets in excess of £2 billion, or

  (c) eligible institutions.
- **Money Market Funds** – limit £3meach
- **UK Government** (including the Debt Management Office)-unlimited
- **Local Authorities, Police & Fire Authorities**-limit £3m each

32. **Country and sector considerations**-Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- No more than £30m will be placed with any non-UK country at any time,
- Limits in place above will apply to Group companies
- Sector limits will be monitored regularly for appropriateness.

33. **Use of additional information other than credit ratings** - Additional requirements under the Code of practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counter-parties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counter-parties. This additional market information, for example negative rating watches/outlooks, annual reports, will be applied to compare the relative security of differing investment counter-parties.

34. **Time and Monetary Limits applying to Investments** -The time and monetary limits for institutions on the Council's Counter-party List are as follows:-

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category (long term)	AA-	Aa3	AA-	£30m	1-3 years
Middle Limit Category (short term)	F2	P2	A-2	£15m *	Up to 1year
Lower Limit Category	Unrated Building Societies with assets in excess of £2 billion			£7m	Up to 1year
Other Institution Limits					
UK Government	-	-	-	unlimited	unlimited
Money Market Funds	-	-	-	£3m	Up to 1year
Local Authorities	-	-	-	£3m	Up to 1year

*Note

With the exception of the Nationwide Building Society where its superior credit rating in the Middle category would justify a £20m limit.

(The Upper and Middle Limit categories will include banks and building societies. The Lower Limit Category will normally just be used for un-rated subsidiaries and un-rated building societies. The Other Institution Limit will be for other local authorities, the DMADF, Money Market Funds. These are all considered high quality names – although not always rated).

35. The proposed criteria for Specified and Non-Specified investments are shown in Annex B for approval.

36. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

37. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the longer-term investment limits.

38. **Economic Investment Considerations -** expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% bank rate remaining flat but with the possibility of a rise in mid-2010. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

39. The criteria for choosing counter-parties set out above provide a sound approach to investment in "normal" market circumstances. Whilst members are asked to approve this base criteria above, under the exceptional current market conditions the Director of Corporate Resources may temporarily restrict further investment activity to those counter-parties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

40. Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility, Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

41. Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Revenue Budgets	2010/11 Estimated +1% £'000	2010/11 Estimated -1% £'000
Interest on Borrowing	214	0
Related HRA Charge	113	0
Net General Fund Borrowing Cost	101	0
Investment Income	1,150	(1,150)

Treasury Management Limits on Activity

42. There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

43. The Council is asked to approve the following limits:

<table>
<tr><th></th><th colspan="2">2010/11</th><th colspan="2">2011/12</th><th>2012/13</th></tr>
<tr><td colspan="6">Interest rate Exposures</td></tr>
<tr><td></td><td colspan="2">Upper</td><td colspan="2">Upper</td><td>Upper</td></tr>
<tr><td>Limits on fixed interest rates based on net debt</td><td colspan="2">100%</td><td colspan="2">100%</td><td>100%</td></tr>
<tr><td>Limits on variable interest rates based on net debt</td><td colspan="2">25%</td><td colspan="2">25%</td><td>25%</td></tr>
<tr><td colspan="6">Maturity Structure of fixed interest rate borrowing 2010/11</td></tr>
<tr><td colspan="2"></td><td colspan="2">Lower</td><td colspan="2">Upper</td></tr>
<tr><td colspan="2">Under 12 months</td><td colspan="2">0%</td><td colspan="2">15%</td></tr>
<tr><td colspan="2">12 months to 2 years</td><td colspan="2">0%</td><td colspan="2">15%</td></tr>
<tr><td colspan="2">2 years to 5 years</td><td colspan="2">0%</td><td colspan="2">45%</td></tr>
<tr><td colspan="2">5 years to 10 years</td><td colspan="2">0%</td><td colspan="2">75%</td></tr>
<tr><td colspan="2">10 years and above</td><td colspan="2">0%</td><td colspan="2">90%</td></tr>
<tr><td colspan="6">Maximum principal sums invested > 364 days</td></tr>
<tr><td>Principal sums invested > 364 days</td><td colspan="2">£m
60</td><td colspan="2">£m
60</td><td>£m
60</td></tr>
</table>

Performance Indicators

44. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

45. The following indicators will be reported in the annual report on treasury management activity for 2009/10:-

- Debt – Borrowing - Average rate of borrowing for the year compared to average available

- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

46. The Council uses Butlers as its treasury management consultants. The company provides a range of services which include:-

    a. Technical support on treasury matters, capital finance issues and the drafting of Member reports,

    b. Economic and interest rate analysis,

    c. Debt services which includes advice on the timing of borrowing,

    d. Debt rescheduling advice surrounding the existing portfolio,

    e. Generic investment advice on interest rates, timing and investment instruments,

    f. Credit ratings/market information service comprising the three main credit rating agencies.

47. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

Member and Officer Training

48. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Stockton has addressed this important issue by providing regular updates and reports on the treasury management function to the Council's Audit Committee. Officer training is provided by Butlers, the Council's advisers, who organise regular seminars and also produce regular newsletters and papers on treasury management issues.

Revised Treasury Management Policy Statement

1) CIPFA recommends that an organisation's treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities:

   a) This organisation defines its treasury management activities as:

      The management of the organisation'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.

   b) 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.

   c) 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.

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management

The Office of the Deputy Prime Minister (now DCLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. The Department for Communities and Local Government is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires the Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 6th March 2002 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Director of Resources has produced its treasury management practices TMP's). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

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

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

The investment policy proposed for the Council is as follows:

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

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity) – unlimited
2. Supranational bonds of less than one year's duration- limit £0
3. A local authority-limit £3m
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating (AAA) by a credit rating agency-limit £3m
5. A body that is considered a high credit quality (such as a bank or building society.

Category 4 covers investments in money market funds. Currently the Council has approved the use of only one fund, Standard Life. This is a triple A rated fund (he highest security rating possible) and it is proposed that investment in this fund continues subject to the limit shown.

Category 5 covers bodies with a minimum rating of F2/P2/A-2 as rated by Fitch, Moody's and Standard & Poors. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:-

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Middle Limit Category	F2	P2	A-2	£15.0m*	Up to 1 year

*Note

With the exception of the Nationwide Building Society where its superior credit rating in the Middle category would justify a £20m limit.

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

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£0 £0
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£0
c.	**Eligible Institutions**-the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13th October 2008, with the necessary short term and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.	£30m
d.	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£15m
e.	Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such	

	building societies which have the following criteria:- Building Societies with an asset base in excess of £2 billion (restricted to up to 1 year)	£7m
f.	Any bank or building society that has the following rating:- Upper Limit Category (restricted to 1-3 years) for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£30m
g.	Any non rated subsidiary of a credit rated institution included in the specified investment category.	£0
h.	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	£0

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from its advisers, Butlers, as and when ratings change, and, and counter-parties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Corporate Director of Resources, and if required new counterparties which meet the criteria will be added to the list.

Estimated Debt Outstanding at 31st March 2010

Loan	Lender	Start	Maturity	Interest	Outstanding Debt
12 months & under					
467501	PWLB	01-Jan-2004	31-Dec-2010	9.625	225,603.86
457260	PWLB	01-Jan-2004	31-Mar-2011	10.25	752,012.85
					977,616.71
1 year to 5 years					
475145	PWLB	01-Jan-2004	30-Jun-2011	8.75	752,012.85
475160	PWLB	01-Jan-2004	30-Jun-2012	8.75	752,012.85
468402	PWLB	01-Jan-2004	30-Sep-2012	11.625	376,006.43
464122	PWLB	14-Mar-1988	31-Jan-2013	9.25	4,000,000.00
470212	PWLB	01-Jan-2004	31-Mar-2013	10.5	752,012.85
468403	PWLB	01-Jan-2004	30-Sep-2013	11.625	351,811.59
467056	PWLB	10-Jul-1989	31-Jul-2014	9.625	4,000,000.00
	Bayerische	01-Jan-2004	10-Dec-2014	8.87	8,000,000.00
467065	PWLB	01-Jan-2004	31-Mar-2015	9.625	902,415.42
					19,886,271.99
5 years to 10 years					
467832	PWLB	18-Dec-1989	31-Jul-2015	10	2,105279.66
467057	PWLB	10-Jul-1989	31-Jul-2015	9.625	4,000,000.00
476058	PWLB	01-Jan-2004	31-Dec-2015	8	752,012.85
466492	PWLB	01-Jan-2004	31-Mar-2016	9.25	601,610.28
467058	PWLB	10-Jul-1989	31-Jul-2016	9.625	4,000,000.00
471705	PWLB	01-Jan-2004	30-Sep-2016	9.875	135,362.31
471706	PWLB	01-Jan-2004	30-Sep-2016	9.875	278,244.75
466493	PWLB	01-Jan-2004	31-Mar-2017	9.25	451,207.71
480866	PWLB	01-Jan-2004	30-Jun-2017	5.75	752,012.85
463966	PWLB	08-Feb-1988	31-Jan-2018	9.5	6,000,000.00
464618	PWLB	01-Jan-2004	31-Mar-2018	9.25	752,012.85
467059	PWLB	10-Jul-1989	31-Jul-2018	9.625	4,000,000.00
467066	PWLB	01-Jan-2004	31-Mar-2019	9.625	397,952.59
467574	PWLB	10-Oct-1989	31-Jul-2019	9.75	2,000,000.00
					26,225,695.85
10 years and above					
	Bank of New York	04-Feb-1986	04-Feb-2021	11.5	2,000,000.00
467526	PWLB	01-Jan-2004	31-Mar-2021	9.75	239,035.09
484303	PWLB	01-Jan-2004	30-Jun-2021	5.75	40,223.94
479996	PWLB	01-Jan-2004	31-Dec-2021	6.375	451,207.71
479482	PWLB	01-Jan-2004	30-Jun-2022	7.125	752,012.85
	Barclays	01-Jan-2004	03-Nov-2022	8.99	4,000,000.00
480389	PWLB	01-Jan-2004	31-Mar-2025	6.25	451,207.71
	Depfa	26-Jun-2001	26-Jun-2026	5.03	5,000,000.00
478327	PWLB	01-Jan-2004	31-Dec-2026	7.875	752,012.85
486677	PWLB	01-Jan-2004	31-Dec-2026	5.25	451,207.71
465102	PWLB	18-Aug-1988	31-Jul-2028	9.375	5,000,000.00
473557	PWLB	01-Jan-2004	30-Sep-2028	7.875	300,805.14

481266	PWLB	01-Jan-2004	31-Dec-2028	5.375	451,207.71
402348	PWLB	15-Sep-1969	31-Jul-2029	9.375	15,631.13
402349	PWLB	15-Sep-1969	31-Jul-2029	9.375	9,558.48
466016	PWLB	24-Jan-1989	31-Jul-2033	9.25	1,117,375.41
490746	PWLB	21-Nov-2005	30-Sep-2035	4.25	5,000,000.00
	Dexia	17-Jul-2002	17-Jul-2042	4.7	5,000,000.00
	Dexia	12-Dec-2005	10-Dec-2042	4.875	6,000,000.00
491576	PWLB	19-May-2006	31-Mar-2047	4.25	4,000,000.00
491577	PWLB	19-May-2006	31-Mar-2048	4.25	3,250,000.00
491100	PWLB	23-Jan-2006	31-Mar-2051	3.7	8,000,000.00
491888	PWLB	19-Jul-2006	30-Sep-2051	4.25	5,000,000.00
491980	PWLB	24-Aug-2006	30-Sep-2051	4.25	5,000,000.00
491889	PWLB	19-Jul-2006	30-Sep-2052	4.25	5,000,000.00
491979	PWLB	24-Aug-2006	31-Jan-2052	4.25	5,000,000.00
491981	PWLB	24-Aug-2006	31-Mar-2052	4.25	5,000,000.00
491982	PWLB	24-Aug-2006	30-Sep-2052	4.25	5,000,000.00
491983	PWLB	24-Aug-2006	31-Mar-2053	4.25	2,472,602.00
493326	PWLB	30-May-2007	31-Mar-2053	4.6	5,000,000.00
493327	PWLB	30-May-2007	30-Sep-2053	4.6	5,000,000.00
491890	PWLB	19-Jul-2006	30-Sep-2053	4.25	4,000,000.00
492196	PWLB	28-Sep-2006	30-Sep-2053	4.05	3,000,000.00
492916	PWLB	15-Feb-2007	31-Jan-2053	4.4	5,000,000.00
492917	PWLB	15-Feb-2007	31-Mar-2053	4.4	2,500,000.00
492197	PWLB	28-Sep-2006	31-Mar-2054	4.05	3,000,000.00
493328	PWLB	30-May-2007	31-Mar-2054	4.6	5,000,000.00
493052	PWLB	08-Mar-2007	30-Sep-2054	4.25	5,000,000.00
493229	PWLB	30-May-2007	30-Sep-2054	4.6	5,000,000.00
492918	PWLB	15-Feb-2007	31-Mar-2055	4.4	4,200,000.00
493330	PWLB	30-May-2007	31-Mar-2055	4.6	5,000,000.00
493331	PWLB	30-May-2007	30-Sep-2055	4.6	5,000,000.00
492919	PWLB	15-Feb-2007	30-Sep-2055	4.4	5,000,000.00
492920	PWLB	15-Feb-2007	30-Sep-2055	4.4	5,000,000.00
492921	PWLB	15-Feb-2007	31-Mar-2056	4.4	5,000,000.00
492922	PWLB	15-Feb-2007	31-Mar-2056	4.4	5,000,000.00
493332	PWLB	30-May-2007	31-Mar-2056	4.6	4,853,338.00
492923	PWLB	15-Feb-2007	30-Sep-2056	4.4	5,000,000.00
492924	PWLB	15-Feb-2007	30-Sep-2056	4.4	5,000,000.00
492925	PWLB	15-Feb-2007	31-Jan-2057	4.4	5,000,000.00
492926	PWLB	15-Feb-2007	31-Jan-2057	4.4	5,000,000.00
494748	PWLB	15-Aug-2008	31-Mar-2058	4.39	4,000,000.00
	Depfa	06-Mar-2007	07-Mar-2077	4.81	6,000,000.00
	Depfa	06-Mar-2007	07-Mar-2077	4.71	15,000,000.00
					211,307,425.73
GRAND TOTAL					**<u>258,397,010.28</u>**

INVESTMENT COUNTERPARTY LIMITS

COUNTERPARTY	Money £m	Time
Bank of England (guaranteed by HM Government equivalent to a sovereign triple A rating)		
Debt Management Account Deposit Facility	unlimited	364 day
UPPER LIMIT/LONG TERM		
Clearing Banks with at least AA- Fitch, Aa3 Moody's or AA- S & P Rating		
Santander	30	3 years
Alliance & Leicester	30	3 years
Barclays Bank	30	3 years
HSBC Group	30	3 years
Lloyds TSB Group	30	3 years
Svenska Handelsbanken	30	3 years
National Australia Bank Group	30	3 years
MIDDLE LIMIT/SHORT TERM		
Clearing Banks with at least F2 Fitch, P2 Moody's or A-2 S & P Rating		
Allied Irish Bank (GB)	15	364 days
Close Brothers Ltd	15	364 days
Co- Op Bank	15	364 days
Northern Rock	15	364 days
RBS Group	15	364 days
Schroders Plc	15	364 days
Clearing Building Societies with at least F2 Fitch, P2 Moody's or A-2 S & P Rating		
Coventry	15	364 days
Leeds	15	364 days
Nationwide	20	364 days
Nottingham	15	364 days
Norwich & Peterborough	15	364 days
Principality	15	364 days
Skipton	15	364 days
Yorkshire	15	364 days
LOWER LIMIT		
Building Societies with an asset base of £2 billion +		
Chelsea	7	364 days
Kent	7	364 days
Newcastle	7	364 days
Stroud & Swindon	7	364 days
West Bromwich	7	364 days
Local Authorities	3	364 days
Money Market Funds	3	364 days

Confidential

Stock Rationalisation Programme proposals

2010/11

Hardwick

2 – 6 Whessoe Walk	(5)

Mandale

50 – 58 Thorntree Road	(5)
34 Northumberland Road	(1)
74 – 86 Thorntree Road	(7)
36 a,b,c Northumberland Road	(3)
9 – 15 Garnet Road	(4)
13 – 24 Pickering Road	(12)
1 – 12 Scalby Square	(12)
5a, 6a, 7a, 8a Scalby Square	(4)
41 – 53 Scalby Square	(13)

Swainby Road

5 ,7, 25, 27 Swainby Road	(4)
1 – 10 Danby Road	(10)
1 – 8 Faceby Road	(8)

Parkfield

1 - 7 Ward Close	(odds)	(4)
12 Lawson Walk		(1)
14 - 19 Lawson Walk		(6)

OVERALL TOTAL	**(99)**

Appendix F

Capital MTFP 2010 - 2013	TOTAL EXPENDITURE		
Approved Schemes & Funding	**2010/2011**	**2011/2012**	**2012/2013**
Adult's Services			
Chronically Sick & Disabled Person Act	96,000		
ISA Developments	321,961		
Social Care IT Infrastructure	60,131		
	478,092	**0**	**0**
Children's Services			
Primary Capital Programme	8,331,328		
My Place	2,733,052	1,881,048	
NDS Modernisation	2,304,566		
Sure Start, Early Years & Childcare Grant	973,391		
ICT Harnessing Grant	716,849		
Extended Schools	468,961		
Schools Access Initiative	340,380		
Short Breaks for Disabled Children	293,000		
Targeted Capital Funding - Kitchen Refurbishment	232,206		
Stockton CLC (Billingham Campus)	150,000		
Teesside CLC (Grangefield Campus)	150,000		
Youth Café Developments	113,200		
	16,806,933	**1,881,048**	**0**
Sport, Culture & Lifelong Learning			
Billingham Forum Refurbishment	6,966,398		
Preston Hall Museum Project	1,095,035	3,432,479	302,744
Preston Park and Hall	170,000		
	8,231,433	**3,432,479**	**302,744**
Housing			
Housing Revenue Account	7,030,500		
HRA - Retained - Disabled Facilities Grant	1,000,000		
Housing General Fund			
Private Sector Renewal	1,000,000		
Disabled Facilities Grant - Private	1,245,500		
Hardwick Regeneration	284,763		
Mandale Regeneration	1,506,831	706,545	1,403,540
Parkfield Regeneration	4,432,240	2,400,000	3,000,000
Swainby Road	271,682	178,534	180,640
	16,771,516	**3,285,079**	**4,584,180**
Technical Services			
LTP Settlement - Integrated Transport	2,152,000		
LTP Settlement - Structural Maintenance	1,668,000		
Road Safety Schemes	66,340		
Developer Agreements	85,625		
	3,971,965	**0**	**0**
Community Schemes			
Additional Highways Works	150,000	150,000	
Cemeteries Refurbishment	150,000	150,000	
Alley Gating	217,405		
	517,405	**300,000**	**0**
Regeneration			
Billingham Town Centre Regeneration	1,500,000		250,000
Stockton / Middlesbrough Initiative	1,421,500	1,280,039	

Stockton Heritage in Partnership (SHiP)	166,276	124,065	121,546
Stockton Town Centre Compensation	83,974		
Thornaby Town Hall - Roof Repairs	43,500		
Green Blue Heart	20,000		
	3,235,250	**1,404,104**	**371,546**
Parks & Countryside			
Parks Play Area Development	439,545		
Newham Grange Park	100,000		
Blue Hall Recreation Ground	100,000		
	639,545	**0**	**0**
DNS Miscellaneous			
Vehicle Fleet Renewal	260,087	964,970	
Safer Stronger Communities	31,138		
Camera Upgrade - Stockton Town Centre	50,000	30,746	
	341,225	**995,716**	**0**
Resources			
Access to Services	232,873	276,600	
Corporate ICT System Support	966,335	19,950	
	1,199,208	**296,550**	**0**
Repairs & Maintenance			
General Repairs & Maintenance	400,000	400,000	
	400,000	**400,000**	**0**
Total Capital Programme 2010/11	**52,592,572**	**11,994,976**	**5,258,470**

Financed By:	**2010/2011**	**2011/2012**	**2012/2013**
Government Support	28,711,689	0	0
Other Grants	9,536,299	6,369,573	3,407,438
Council Resources	5,285,525	2,378,325	308,935
Earmarked Council Receipts	1,891,494	706,545	1,403,540
Prudential Borrowing	5,903,496	1,284,867	138,557
Contributions	110,625	240,000	0
Revenue Contributions	1,153,444	1,015,666	0
Total Capital Programme 2010/11	**52,592,572**	**11,994,976**	**5,258,470**

HOUSING REVENUE ACCOUNT

Description	2009/10	2010/11
	£	£
INCOME		
GROSS RENT INCOME - DWELLINGS	(31,780,648)	(31,972,682)
INCREASED PROVISION FOR BADS DEBTS	219,000	225,000
- NON DWELLINGS RENT	(436,723)	(447,641)
- NON DWELLINGS SHOPS AND LAND	(370,841)	(370,841)
CHARGES FOR SERVICES	(1,003,462)	(1,038,514)
CONTRIBUTIONS TO EXPENDITURE	(420,659)	(428,296)
ALMO SUBSIDY	(5,040,000)	(5,040,000)
ALMO CAPITAL COST	3,594,554	3,601,440
TOTAL INCOME	(35,238,779)	(35,471,534)
EXPENDITURE		
MANAGEMENT FEE - TRISTAR	6,752,817	7,368,140
RETAINED MANAGEMENT - GENERAL	1,557,740	1,319,197
INSURANCE RECHARGES	-	-
SHELTERED ACCOMMODATION	37,536	39,499
MAINTENANCE - TRISTAR	7,493,696	7,161,879
- DISREPAIR	-	-
RETAINED MAINTENANCE	732,184	722,869
CONCIERGE	1,571,170	1,126,606
RENT REBATES LIMITATION		
SUBSIBY PAYABLE	9,658,126	11,136,794
CAPITAL CHARGES - INTEREST	4,375,795	4,349,973
- LEASING	156,464	698,386
- DEPRECIATION GARAGES	-	-
- RCCO	2,595,992	1,500,000
DEBT MANAGEMENT COSTS	77,083	79,393
AMORTISED PREMIUMS/DISCOUNTS	62,675	(33,088)
INTEREST RECEIVABLE	(9,258)	(4,221)
INTEREST ON BALANCES	(50,000)	(50,000)
TOTAL EXPENDITURE	35,012,020	35,415,427
SURPLUS/DEFICIT	(226,759)	(56,106)
BALANCE AT 1ST APRIL	(1,111,344)	(1,338,103)
BALANCE AT 31ST MARCH	(1,338,103)	(1,394,209)

HOUSING REVENUE ACCOUNT – 2010/11 RENT LEVEL

The government previously confirmed that all councils and housing associations must set their rents on a new and consistent basis. These arrangements were to be phased over a ten year period commencing April 2002 and therefore needs to be fully in place by 2012. The proposals entail both the need for rent restructuring and rent convergence. Rent restructuring is where individual property rents will be reviewed to take into account such issues as property values and local labour rates. Rent convergence is where overall council and housing association rents are brought in-line to eradicate the significant current variances between rent levels in the two sectors.

In previous years the government have moved the convergence date to ensure that rents are still affordable. The 2010/11 Draft Housing Subsidy settlement has proposed that rent convergence be brought forward from 2024 to 2012.

On the 1 April 2003 the council approved that rents would be charged over 48 weeks with 4 rent free periods.

The proposed average increase for 2010/2011 of 2.48 % equates to £1.59p per week which gives an average weekly rent of £65.60p. The proposed increase compares to an increase of 3% or £1.92p in 2009/10. Below is an average increase for each bedroom type:-

	Rent Increase £	**Rent Increase %**
0 Bedrooms	£1.38	2.77%
1 Bedroom	£1.65	2.93%
2 Bedroom	£1.59	2.49%
3 Bedroom	£1.55	2.24%
4 Bedroom	£1.51	2.07%
5 Bedroom	£1.48	1.94%
AVERAGE	**£1.59**	**2.48%**

A review of service charges will be conducted by the Council and Tristar Homes Limited in the new-year in accordance with DCLG guidelines.

Appendix I

Proposed EIT Year 2 Programme

Partnering Categories

- Libraries, Museums, Archaeology and Archives
- Revs & Bens
- Environmental Health, Trading Standards, Licensing, Building Control
- HVE, Highways, Building Maintenance (trading)
- Facilities Management
- Xentrall Expansion – Redcar
- Procurement – Tees Valley
- Health / Hartlepool Community /Service Development
- Commissioning Transport – Tees
- Street Lighting – Durham PFI
- Street Lighting – Darlington/Hartlepool
- Adult Education

Review Categories

- Sport, Leisure & Recreation
- Events, Arts & Tourism
- Children & Young Peoples Assessment/Field Work
- School Catering
- Built & Natural Environment
- Mental Health, Learning & Disability
- Fair Access to Care Services (continued from year 1)
- Youth Services (continued from year 1)

Gateway Categories

- Admin, Business Support, Customer Services & Performance Management

Reporting In Categories

- Procurement / Commissioning Function
- Building Asset Review
- ICT Services