CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

23 FEBRUARY 2012

REPORT OF CORPORATE MANAGEMENT TEAM

COUNCIL DECISION / CABINET DECISION

Leader of the Council – **Councillor Cook**

MEDIUM TERM FINANCIAL PLAN UPDATE AND STRATEGY

1. Summary

This is the final report in the process of determining the Council's 2012/13 budget and Medium Term Financial Plan (MTFP) position for 2012 to 2017. It includes Council Tax proposals and outlines the approach to financial issues faced by the Council.

2. Recommendations

COUNCIL DECISIONS

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
   c) that the controlled reserves and provisions are adequate for their purpose.

General Fund Budget

2. Approve a 2012/13 Council Tax requirement for Stockton-on-Tees Borough Council of £75,016,771.

3. Approve a 2012/13 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£617,577) of £75,634,348.

4. Approve the 2012/13 budget and indicative 2012/17 MTFP as outlined in paragraphs 15 and 20 and the use of balances and reserves as outlined in paragraph 32.

5. The Pay Policy Statement attached at **Appendix A** to this report be approved.

Taxation

SBC

6. Approve the Council Tax for Stockton-on-Tees Borough Council prior to Parish, Fire and Police Precepts be increased by 3.49% i.e. to £1264.16 at Band D (£842.77 at Band A).

Fire, Police & Parish

7. The Police Authority will meet on 29 February 2012 to set the precept and Council Tax.

8. The Council note the Fire Precept of £3,946,189 which equates to a Council Tax of £66.50 at Band D (£44.33 at Band A).

9. The Council note the Parish precepts as set out in paragraph 44 of the budget report.

Capital

10. Approve the Capital Programme attached at **Appendix B**.

Council Tax - Statutory Requirements

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

Treasury Management/Prudential Code

12. Approve the Treasury Management Strategy, Minimum Revenue Provision Statement, Investment Strategy and Prudential Indicators for **2012/13– 2014/15** as set out in **Appendix D** to the report.

CABINET DECISION

13. That the demolition of King Edwin School is delayed and a procurement exercise undertaken into child placements which could incorporate the redevelopment and use of the facility.

3. Reasons for the Recommendations/Decisions

To update Members on the current MTFP position and approve the 2012/13 Budget and Council Tax.

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

Financial Position as at 31 December 2011

1. The following table outlines the current MTFP position of each service.

	Previously Reported Position £'000	Projected Outturn 2011/12 £'000	Projected Outturn 2012/13 £'000	Projected Outturn 2013/14 £'000
CESC	0	(463)	0	0
DANs	(192)	(496)	(125)	0
Resources	(218)	(243)	(137)	0
L&D	(187)	(187)	(106)	0
Policy & Communications	(191)	(452)	(248)	0
TOTAL	**(788)**	**(1,841)**	**(616)**	**0**

Children, Education & Social Care

2. Previous reports throughout the year have outlined pressures in a range of areas, with an expectation that the opening Managed Surplus of £2.5m would be fully utilised. There has however, been a slight improvement and it is now expected to have a Management Surplus of £460,000, with the main reasons being as follows:

   - Whilst pressures remain within child placements and children in care, there is a lower than anticipated overspend due to a slight reduction in foster placement costs.
   - There is a reduced overspend in Social Care staffing costs due to a reduction in use of agency staff and some vacant posts.
   - Client contributions are higher than anticipated and there has been a reduction in community transport costs following retendering elements of the service.

   The impact of these changes will be incorporated into reviews in these areas planned for 2012/13. These overspends have been funded by MS, which as the table above demonstrates is much reduced from previous years.

Development & Neighbourhood Services

3. There is now expected to be a slight improvement in the Managed Surplus of approximately £300,000. The main reasons for the change are as follows:

   - The anticipated overspend associated with the NNDR chargeable within waste management contract will be lower than previously projected.

- There are a number of posts across the service, notably in Community Safety, Highways and Management Services, which have been held vacant in advance of implementing EIT review findings.

- The HVE service is continuing to face pressures due to the reduction of work and this will be closely monitored.

Policy & Communications

4. The position has improved mainly due to schemes or initiatives being delayed and carried forward into 2012/13. The most notable item being the development of the Local Intelligence Framework.

General Fund Balances

5. The position on general fund balances has improved by approximately £700,000 since the December Cabinet report and is now estimated to be at £10.8m, which is £2.3m above the 3% required and this surplus is available as one-off resources.

6. The main reasons for the increase are:

   – EIT savings have delivered earlier than anticipated, £300,000.
   – The external audit of the Council's housing subsidy claim had indicated we had been overpaid and a provision for repayment made in the accounts. However, further work revealed that the financial extent of the error was minimal and the provision of £250,000 was not required.

7. Members will recall that the 2011/12 budget report indicated that additional funding in respect of Social Care was anticipated to be received by the Council, although final details were not known at the time. In this context £2.3m of one-off resources was earmarked to ensure a balanced budget position. This funding has now been confirmed for 2011/12 and it is now anticipated that only £600,000 will be required from balances in the current year.

MEDIUM TERM FINANCIAL PLAN 2012/17

8. The report to Cabinet on 1 December 2011 outlined the potential changes to the Council's MTFP. The financial position has been updated and this report identifies the decisions needed for setting the 2012/13 budget and the impact on the indicative MTFP.

9. The indicative MTFP outlined in the 2011/12 budget report which included an assumed Council Tax of 3.5%, showing a budget gap as follows:

	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**
BUDGET GAP	**158**	**408**	**6,272**

10. Members are also reminded that the current plan also includes a significant level of savings which have been identified through the Council's planned approach to efficiency measures over the past 3 years and these are outlined below.

	2012/13	2013/14	2014/15
	£'000	£'000	£'000
Budget Report 2010 / 11			
Supplies & Services freeze	2,600	2,600	2,600
Vacant posts/turnover freeze			
Recruitment advertising	150	150	150
Car Allowances	800	800	800
Agency Contracts	100	100	100
Procurement of ICT and Telecommunications Equipment	230	230	230
EIT Year 1 Reviews / Operational Efficiencies	4,400	4,400	4,400
Budget Report 2011/12			
EIT Year 2	5,154	6,204	6,204
Hopper / Identified Savings	1,980	2,130	2,130
EIT Year 3	1,500	3,000	3,000
Total Savings included in MTFP	**16,914**	**19,614**	**19,614**

Delivery of EIT Savings

11. The majority of savings have been achieved or are on target to be delivered. A number of the EIT Year 3 reviews are however still ongoing and the plan assumes that all savings are delivered.

Updated Medium Term Financial Plan

12. The plan has been reviewed and updated and also rolled forward for an additional two years in order to demonstrate the financial position the Council could be facing in the long term. A number of changes have been incorporated into the plan a number including estimates around future funding and these are outlined below.

13. Members will be aware of the ongoing Review of Local Government Finance which focuses on Business Rate Retention from 2013/14. At this stage, it is not possible to forecast the impact of changes on the Council. The Government had indicated that meetings will be held with local Government representatives over the next six months, to discuss further detail. It is unlikely however that we will find out the actual impact until late in 2012.

    There have also been some announcements which are likely to impact on Local Government and the Council and these have been incorporated into the plan:

    a. Although outside of the current spending review period, the Chancellors Autumn statement indicated that public sector funding would be reduced further in 2015/16 and again in 2017/18 by 0.9% in each year. Although there are no further details at this stage, and in fact further details are unlikely until the next Comprehensive Spending Review in 2014, it is highly likely that this will impact on Council funding allocations. As part of the previous spending review, the impact of reductions was higher than average in Local Government due in part to areas such as Education and Health being protected from any reductions. Assuming future reductions follow this trend it is likely that the reduction on Local Government would be more than the 0.9% referred to above. Using a similar proportion to previous reductions, the impact could be £2.9m, in 2015/16 and a further £2.8m in 2016/16. The MTFP has therefore been rolled forward a further two years to demonstrate the potential impact on the Authority of these reductions. It is unclear however, how this would work following the localisation of Business Rates.

    b. The Government have also announced the intention to continue with a public sector pay freeze in 2012/13 and then to restrict pay increases to 1% per annum for 2013/14 and 2014/15. There is a recognition that Government Departments, including Local Authorities will have flexibility over how they implement the pay policy across their workforces, with Pay Review Bodies playing their usual role. There will however be a reduction in funding to Local Authorities, equivalent to a 1% pay increase. In Stockton therefore there will be a reduction in funding estimated at £650,000 in each of the two years. The current MTFP assumes a 2% pay award and if this were to be maintained, then there would be a pressure due to the reduction in resources. It has therefore been assumed that the Local Government Pay award will be in line with the Governments position which will negate the pressure caused by the income reduction.

c. The Government have also introduced a power, through the Localism Act, that requires Councils to produce a pay policy statement. A statement must be produced for the financial year 2012/13 by 31 March 2012 and it must be reviewed every year thereafter. The Act covers all posts classified as Chief Officer including non statutory Chief Officers and so includes not only the Corporate Management Team but all Heads of Service. The Act does not however, apply to staff employed in schools. Statutory guidance on what must be included within a pay policy statement has been issued although at this stage the guidance is still in draft form. The statement must be approved by Council and is attached at **Appendix A**.

d. The provisional finance settlement was received on 8 December 2011 and this confirmed that there was no change to the Revenue Support Grant (which now incorporates the 2011/12 Council Tax Freeze Grant) for 2012/13. The settlement did confirm the Council will receive an additional £550,000 in new homes bonus for 2012/13, payable for 6 years. The operation of further years New Homes Bonus is unclear due to the changes in Local Government Finance, described above, and therefore no additional income has been assumed at this stage.

e. Government funding to cover the 2011/12 Council Tax freeze was guaranteed for 4 years. There is no indication this will continue beyond this point and therefore the plan assumes this funding will cease after 2014/15 which creates a pressure of £1.8m per year.

14. There are a number of changes to expenditure estimates which have been incorporated into the plan. The main changes are as follows:

- Overall the EIT savings are on target to be delivered and in fact additional savings have been generated from reviews which will generate an additional £1.3m per annum in 2012/13 increasing in subsequent years. There are however, some areas where the Council's planned and careful approach means that there will be delays in savings being delivered e.g. FACS review, and these have been incorporated into the plan. It is also worth noting that Officers are also continually challenging the approach to delivering services and exploring opportunities for savings. The recent report to Cabinet in December agreed the consolidation of the Heads of Human Resources and Communications posts, resulting in a saving of £100,000. A project is also underway to revise the approach to printing throughout the Council through the consolidation of printers.

- Members will be aware that following an assessment of the Insurance Fund in 2010/11, it was identified that the contributions made to this fund could be reduced by £1.9m per annum for a period of 3 years. The Council will be retendering the insurance contract during the period of the MTFP but based on the current fund, performance and costs, it is considered likely this resource could be released across the plan releasing £1.9m per annum. This may however, need to be reconsidered following the tender exercise.

- There are a number of service pressures which need to be incorporated into the plan:

  - Energy costs – increasing electricity costs will cost the Council £250,000 per annum;
  - Waste – it is anticipated that there will be a pressure on the waste disposal budget of £800,000 from 2013/14 due to changes in gate fee arrangements;
  - The Council is continuing to experience pressures across Social Care, as outlined in paragraph 2, and the current pressure is expected to continue across the MTFP. The Council has received confirmation that the funding transfer from Health to support Social Care will be received in 2012/13, 13/14 and 14/15 and this has been included in the MTFP. There is however no indication that this funding will continue after this date and if the funding does not continue it would create a pressure of £1.7m from 2015/16 to enable the current levels of Social Care investment and support to be maintained.

Detailed work will be undertaken on these areas to avoid further growth and this is outlined in paragraph 19. Given the current level of overspends and reduced levels of managed surplus there is limited flexibility in the plan to support any interim pressures in these areas. It is therefore suggested that £1.9m is allocated to support such pressures in the short term.

15. Taking account of these changes the updated MTFP position is as follows:

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Funding					
RSG	-70,231	-68,280	-62,996	-60,096	-57,296
Council Tax - 2011/12 Freeze Grant	-1,800	-1,800	-1,800		
Council Tax	-75,516	-78,523	-81,649	-84,901	-88,284
New Homes Bonus	-1,320	-1,320	-1,320	-1,320	-1,320
Total Funding	**-148,867**	**-149,923**	**-147,765**	**-146,317**	**-146,900**
Spending Plans	147,940	149,111	152,184	156,087	160,493
EIT Savings	-1,218	-1,525	-1,597	-1,672	-1,745
Insurance		-1,964	-1,975	-1,987	-1,987
Pressures	250	1,050	1,050	2,750	2,750
Interim Growth	1,895				
Spending Plans	**148,867**	**146,672**	**149,662**	**155,178**	**159,514**
Budget Gap	**0**	**-3,251**	**1,897**	**8,861**	**12,614**

Council Tax

16. The Council Tax levels included in the MTFP above are based on an increase of 3.49% which is consistent with the indicative position outlined in the budget report for 2011/12. Members will be aware that in 2011/12, Council Tax was frozen and the equivalent increase (in Stockton's case £1.8m) was funded through Government Grant. This grant was guaranteed for 4 years and this can be seen in the table above, including the impact of this discontinuing. The Government have recently indicated that funding will again be available for Council's to freeze Council Tax in the forthcoming year, again with Council's receiving the equivalent of 2.5% increase. Critically however, this is a one year allocation only and if Stockton accepted this funding there would be a significant additional pressure on our MTFP as demonstrated below.

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Current Planned Council Tax Levels					
Opening Council Tax Income	72,986	75,517	78,523	81,650	84,902
Increase (@3.49%)	2,530	3,006	3,127	3,252	3,382
Council Tax for the year	**75,516**	**78,523**	**81,650**	**84,902**	**88,284**
Impact of Freeze Funding					
Opening Council Tax Income	72,987	72,987	75,892	78,913	82,056
Increase (@ 3.49% from 2013/14)	0	2,905	3,021	3,143	3,268
Freeze Grant	**1,812**	**0**	**0**	**0**	**0**
Funding for the Year	**74,799**	**75,892**	**78,913**	**82,056**	**85,324**
Pressure on MTFP	**717**	**2,631**	**2,737**	**2,846**	**2,960**

17. Given the level of additional pressure caused by the accepting the freeze grant across the MTFP, it is recommended that the Council increases Council Tax levels by 3.49%. This will mean 82p per week for a Band D Council Tax and 55p per week for Band A.

Approach to Efficiency Savings

18. Although the current plan includes savings of almost £20m, it is clear additional savings are required. Whilst all services have now been reviewed through the EIT process there are a range of areas which are worthy of further exploration.

19. The updated plan has once again identified pressures in energy, waste and social care. Whilst there has been significant efforts to reduce costs in these areas, the level of growth and potential pressures have required over £2.5m to be allocated to these areas in each of the last two years. Given the Council's financial position, it is important to do everything possible to avoid future pressures and this indicates a need to have a consolidated and targeted approach to considering options, which maybe radical, to avoid further increases. It is therefore recommended that detailed reviews of these areas are undertaken. These areas were also identified as part of Phase 2 of the Council's approach to procurement category management and this would be a key aspect of this work. Whilst these would attempt to reduce costs, given the level of growth in recent years, the initial focus would be to avoid increases and therefore for the purpose of this report, no savings in these areas have been assumed.

20. There are a number of areas where EIT reviews identified potential additional work, and it is recommended that these are now brought forward, along with some cross cutting areas which are worthy of review. These also link with the procurement category management approach and are:

- Transport
- Street Lighting
- Subsidies to External Organisations (e.g. TAL)
- Vehicles and Fuel
- Fees and Charges
- Terms and Conditions

It is estimated that these areas could contribute approximately £1m to the savings target by 2014/15 which would mean that the budget position would be as below. The reviews have been incorporated into Service Improvement Plans and also the Council's Scrutiny Programme.

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
ESTIMATED BUDGET GAP (as per paragraph 15)	0	(3,251)	1,897	8,861	12,614
Efficiency Reviews		(500)	(1,000)	(1,000)	(1,000)
ESTIMATED BUDGET GAP	**0**	**(3,751)**	**897**	**7,861**	**11,614**

Reserves and One off resources

21. The Council's position on Reserves and one off resources have been reviewed and the position is outlined below. It is important to recognise however, that these resources are 'one off' and cannot sustain supporting ongoing budget gaps. There is however the option of utilising the resources to invest to generate ongoing revenue savings which can contribute to the financial position.

22. Members will recall that as part of the 2011/12 budget report, a resource of £13.8m was earmarked for a transformation reserve across the MTFP to support transition and implementation costs such as redundancy costs and invest to save initiatives and approximately £1.8m has been utilised to date. There is likely to be an increased call on this reserve for Invest to Save activities, particularly if in a number of areas we look to more innovative and radical options for delivering on-going revenue savings. It is therefore recommended that this reserve is retained for this purpose.

23. One area which is currently being assessed is the Council's approach to 52 week Childrens residential care provision. This has been previously identified as a pressure area and there are a number of children placed outside of the Borough. Officers are currently exploring opportunities

for reducing costs and also enabling children to be placed within our Borough.

A potential solution could include the use of the former King Edwin School site, possible in partnership with a private sector provider. Cabinet have previously agreed to demolish this building. It is recommended however, that the demolition is delayed and put on hold whilst a procurement exercise is undertaken to explore this option.

24. There are a number of areas where reserves and one off resources are available to support either one off expenditure or investment which could generate future revenue to support the MTFP and these are outlined below:

- A litigation reserve was set aside for single status and litigation costs. Job Evaluation has been successfully implemented across the Council and all appeals heard. Although there are a number of equal pay claims outstanding, it is not anticipated that this level of reserve will be required and this reserve can therefore be reduced. This reserve has now been re-assessed and it can be reduced from £15m to £7m, releasing £8m of one off resources.

- Following the successful transfer of the Council's Housing stock to Tristar Homes/VELA group, the Council will no longer operate the Housing Revenue Account and the balance of £3.5m will transfer to the Council's General Fund and be available to fund one off resources.

- Paragraphs 4 and 5 identify that £4m of balances are available to be released as a one-off resource.

- Despite the difficult financial climate, the Council Tax collection levels remain above target which is anticipated to generate an additional £1.2m in 2011/12 which will be available.

- Through a combination of capital receipts and unallocated capital resources, the Council has approximately £1.2m available.

- The Council will also receive an unringfenced Capital Grant of £450,000 to support Social Care and reablement activity

This would release a total of £18.35m one-off resources which would be available for investment. There is also an additional £3.8m of one-off monies available from the MTFP in 2013/14 which gives a total of £22.15 in one-off funding available.

Calls on One-off Resources

25. There are a number of calls on one-off resources and these are outlined below.

<u>Stockton Town Centre and Housing Regeneration Cashflow</u>

26. Members will be aware that the Council will benefit from works carried out by VELA Homes through a share of the VAT shelter and previous reports have indicated support to utilise this resource on Housing and Town Centre Regeneration Schemes.

27. A report was presented to Members in February outlining the position with current and proposed Housing Regeneration schemes, including the level of resources required from the VAT shelter.

28. Members will be aware from a report presented to Cabinet to 8 December 2011 of the progress towards the delivery of the Stockton Town Centre prospectus. This report identified a requirement of £7.5m to allow the schemes to be delivered.

29. The overall position in respect of the Town Centre and Housing Regeneration Programmes is summarised below, together with the anticipated profile of expenditure and of VAT shelter receipts available to the Council:

	FUNDING REQUIREMENT / CALL ON VAT SHELTER						
	2012/13	2013/14	2014/15	2015/16	2016/17	TOTAL	2017-
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Housing Regeneration Schemes	1,284	1,115	-282	54	125	2,296	-1,800
Awaiting Approval							
Stockton Town centre	683	4,650	2,000	167		7,500	
Victoria Estate	53	619	628	638	1,362	3,300	-5,000
TOTAL REQUIREMENT	**2,020**	**6,384**	**2,513**	**692**	**1,487**	**13,096**	**-6,800**
Estimated VAT Shelter Receipts	-1,370	-2,110	-2,000	-1,480	-860	-7.820	-9,000
CASH FLOW FUNDING GAP	**650**	**4,274**	**513**	**-788**	**627**	**5,276**	**(15,800)**
CUMULATIVE	**650**	**4,924**	**5,270**	**4,816**	**5,276**		**(10,523)**

30. The table demonstrates that whilst there is sufficient funding available overall, if we are to undertake the regeneration work in the desired timescales require to improve the Town Centre, there are cashflow issues associated with the programme. In order therefore to deliver the schemes in the desired timescale, it is recommended £5.3m is earmarked from one-off resources. This will be replenished in later years as demonstrated by the above table.

31. Further reports will be provided to Cabinet outlining subsequent phases of the Town Centre redevelopment. Whilst detailed financial appraisals will be undertaken and financial aspects approved by Cabinet, if this work is to be undertaken in the next 4 years as is likely, there will be additional cash flow issues to resolve. It is therefore recommended that £5m is earmarked to cover such shortfalls, again replenished in subsequent years upon receipt of VAT shelter income.

Investment Requirements and Priorities

32. Members will be aware that funding within the MTFP ceases in 2011/12 for the following areas:

- Cemeteries
- Community Participation Budget
- Repairs & Maintenance
- Aids and Adaptations

These areas have been reviewed and considered along with other potential investment requirements and the following areas are identified for proposed investment:

Community Participation Budget – A report was presented to Council on 18 January agreeing in principle that this should continue subject to resources. Given the success of this scheme, it is proposed that this continues for a further 3 years at £400,000 per year.

Repairs & Maintenance – It is proposed that this continues at a reduced level of £300,000 for two years to reflect the reductions in properties brought about by the Asset Review.

Aids and Adaptations – There is still a significant call on this equipment and it supports the policy of supporting individuals in their home. It is proposed this continues for a further three years at £150,000 per year. This will effectively be funded from the Social Care Grant.

Cemeteries – There are still a number of repairs outstanding and it is proposed an additional £150,000 is allocated to this area.

Events – This year will be an exciting and busy year with a series of high profile events to celebrate not least the Olympic Games, the 25th Anniversary of SIRF and the Queen's Jubilee. In order to ensure their success this will require one-off funding of £300,000.

Tees Valley Infrastructure Project - a Tees Valley-wide project is underway to enhance broadband across the sub-region and this will require match funding of £140,000.

Billingham Library & Contact Centre – Members will be aware of the previous funding bid to support an Integrated Facility within Billingham in partnership with the PCT, and that unfortunately Government funding for this project was not forthcoming. The Council are still committed to developing a facility within the Town Centre and officers are exploring options. Discussions are still ongoing with PCT colleagues around their intentions for Billingham, these discussions are complicated however, by the changes within the Health Service and also the Momentum project/hospital decision. A further report will be provided to Cabinet on the proposals. However initial Indications are that this project would require approximately £1.5m additional resources.

Wheeled Park Facilities – A Borough Strategy is being developed to support wheeled sports and this will require investments if it is to be successfully delivered. It is recommended that £200,000 be earmarked to support the programme and be used to lever in additional funding.

Housing Empty Homes – An allocation of £500,000 will lever in external funding to support a programme to bring empty properties back into use.

Thornaby Road Re-alignment – In order to supplement the Town Centre redevelopment and support the Tees Valley Bus Network Initiative, a major road realignment is planned. The majority of the funding is covered through developer contribution however the scheme requires a Council commitment of £300,000. This would secure the contributions from the developer and allow the scheme to proceed.

Funding of the above schemes would require the following call on one-off resources:

Scheme	**£'000**
Previously Supported Schemes	
Community Participation Budget (3 yrs)	1,200
Repairs & Maintenance (2 yrs)	600
Aids and Adaptations (3 yrs)	450
Cemetery Maintenance	150
New Schemes	
Billingham Library & Contact Centre	1,500
Tees Valley Broadband	140
Thornaby Road Scheme Match funding	300
Housing Match Funding - Empty Homes	500
Wheeled Park Facilities	200
Events	300
TOTAL	**5,340**

Summary of One-off Resources

	£'000
Resources Available	**22,150**
Less	
Housing & Town centre Cashflow	5,300
Town Centre Phase 2 Cashflow	5,000
One Off Schemes	5,340
	15,640
Available Resources	**6,510**

Investment to Generate ongoing Revenues

33. It is proposed that the remaining £6.5m is retained to support investments which generate ongoing revenue income. There are also the potential to link this investment to economic growth and regeneration through exploring areas such as acquisitions supporting town centre regeneration, match funding developments, mortgages etc. Further details of any investment would be presented to Cabinet for approval.

Plans for Addressing Future Budget Gap

34. The Council could consider developing detailed plans to address the estimated gap in 2015/16 now. However, given the levels of uncertainty and the work currently ongoing, it is suggested that this is delayed and considered as part of the 2013/14 budget cycle when some of the uncertainties are known.

Capital Position 2011/12

35. The Capital budget for 2011/12 is outlined in the following table:

	Approved Budget £000's	Revised Budget £000's	Outturn £000's	Variance £000's
Children, Education and Social Care	11,682	11,731	9,239	(2,492)
Development & Neighbourhood Services	23,864	23,904	19,132	(4,772)
Resources	3,804	3,830	3,514	(316)
Total Programme	39,350	39,465	31,885	(7,580)

Children, Education & Social Care

The variance represents funding received from the Dept for Education for Schools that has not yet been allocated to schemes which will be carried forward into 2012/13 (as outlined in Paragraph 38).

Development & Neighbourhood Services

Budgets have been re-assessed as part of the Stockton Town Centre project which has resulted in (£2.65m) of resources being re-profiled.

The profiling of vehicle replacements has been reviewed this will now be acquired from 2012 onwards and funded from the vehicle replacement reserve (£586,000).

A delayed start on road works to allow access to the new housing development site on Yarm Road (former Visqueen Site) has resulted in a re-profiling of (£410,000), which is funded by the housing developer.

Following the cabinet report taken on 3 November, funding set aside to fund works at Billingham Town Centre have been re-profiled to support Stockland UK to deliver on the redevelopment of the town centre (£600,000).

Mandale Regeneration Scheme has seen a lower than anticipated acquisition costs resulting in a reduction in budget of (£290,000) and the Swainby Road Regeneration Scheme has been re-profiled. This has been incorporated into the updated Housing Regeneration position shown in paragraph 29 (£186,000).

Additional resources of £160,000 have been secured from the PCT to allow additional investment in Disabled Facility Grants and some expenditure has been re-classified as capital from within the revenue MTFP.

Resources

The Server Virtualisation scheme has been re-profiled to reflect that the level of expenditure incurred is dependant upon a number of other concurrent ICT projects. Expenditure is funded through contributions from Darlington BC and earmarked reserves.

Capital Programme 2012-2017

36. The Council has received Government funding allocations for 2012/13 as follows:

Education Capital	£4.1m
Local Transport Plan	£3.3m
Disabled Facility Grant	£0.5m

37. The Capital Programme has been reviewed and updated and is shown at **Appendix B**. The plan includes the Capital schemes and the Town Centre and Housing Regeneration plans outlined at paragraph 32, together with the associated use of one-off resources. The LTP and Disabled Facility grants are also included.

38. Members will be aware from the report to Cabinet in November 2011 that officers are currently developing an investment plan for the Borough's Schools. The School Capital allocation will be considered as part of that report and is currently shown on the programme as unallocated.

Future Uncertainties and Potential Changes to Budget Position

39. Members will be aware of the ongoing Review of Local Government Finance which focuses on Business Rate Retention. At this stage, it is not possible to forecast the impact of changes on the Council. The Government had indicated that meetings will be held with local Government representatives over the next six months, to discuss further detail. It is unlikely however that we will find out the impact until late in 2012. There are also a range of other uncertainties which could impact on the Council's financial position moving forward.

Council Tax Benefit System - Members will be aware of the localisation of Council Tax benefit, which incorporates a reduction in funding of 10% which equates to £1.7m for this Authority. Depending on the scheme developed, there is a potential pressure on the medium term financial plan through the scheme itself either not delivering the full £1.7m saving or creating a difficulty in collection which will impact on the Council's collection fund. The worst case scenario is that the full impact of the reduction would be a call on Council resources.

New Homes Bonus – It is still unclear whether the Council will benefit from additional new homes bonus in each year of the MTFP, and if so what level of resource could be available. This is linked to review of Local Government Finance mentioned above.

Members will also be aware that there was also a reduction in specific grants in 2011/12 which meant a reduction in funding of approximately £10m, including a reduction of £3m in Early Intervention grant and plans are in place to manage this reduction. This report assumes there are no further reductions in levels of specific grants. There are also a number of other changes which could impact on the Council's financial position including:

- Transfer of Public Health Responsibilities and Funding
- Academy developments and funding
- Service specification policy changes (e.g. Munro Review into Adult Social Care)

Summary

40. The Council's MTFP position can be summarised as follows:

- There is a balanced budget in 2012/13, and a projected surplus in 2013/14 of £3.75m.

- It is currently estimated that there will be a revenue budget gap of £7.8m in 2015/16 and

£11.6m in 2016/17, however there is significant uncertainty around these years of the plan and the situation will be reviewed on an annual basis.

- £22.15m (includes the 20013/14 projected surplus) of one-off resources have been released into the MTFP and this will be utilised as follows:

  - Housing Regeneration and Stockton Town Centre cashflow £5.3m
  - Stockton Town Centre Phase 2 £5m
  - Investment/Schemes £5.34m
  - Retained for investment opportunities £6.51m

TAXATION

Stockton Precept

41. Stockton's current tax level for 2011/12 at Band A (the biggest percentage of its properties) is £814.35 (£15.66 per week). The impact of a 3.49% increase in Council Tax is for 2012/13 is shown below:

	Band A £	Band D £
2011/12	814.35	1221.53
2012/13	842.77	1264.16

Police Precept

42. The Police Authority will meet on 29 February 2012 to agree the precept and Council Tax.

Fire Authority

43. The Fire Authority has determined to increase Council Tax for 2012/13 by 3.95%. This equates to a precept of £3,946,189 and impact of this increase is shown in the table below:

	Band A £	Band D £
2011/12	42.65	63.97
2012/13	44.33	66.50

Parishes

44. Details of the Parish precepts are given below:

Parish	2011/12 £	2012/13 £	Increase/Decrease £	%
Aislaby & Newsham	0	0	0	0
Carlton	4,350	4,524	174	4.00
Castleleavington & Kirklevington	10,900	10,000	-900	-8.26
Egglescliffe & Eaglescliffe	73,508	69,533	-3975	-5.38
Elton	0	0	0	0
Grindon	6,000	6,000	0	0
Hilton	1,985	1,985	0	0
Ingleby Barwick	109,582	131,850	22,268	20.32
Long Newton	6,500	6,500	0	0
Maltby	2,000	2,500	500	25.00
Preston	5,500	5,500	0	0
Redmarshall	2,500	2,500	0	0
Stillington & Whitton	8,000	8,000	0	0
Thornaby	137,000	137,000	0	0
Wolviston	10,582	10,582	0	0
Yarm	91,550	91,550	0	0
Billingham	123,013	129,533	6,520	5.30
Totals	592,970	617,577	24,607	4.15

Overall Tax Position

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

The Council
Police
Fire
Parishes

The position assuming Stockton Borough Council sets its Council Tax requirement at £75,016,771 is given below:

Tax 2012/13			
	Current 2011/12 (Band A) £	Proposed 2012/13 (Band A) £	Increase %
Police	125.23		
Fire	42.65	44.33	3.95
Stockton BC	814.35	842.77	3.49

Formal Tax Recommendations

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

TREASURY MANAGEMENT STRATEGY

47. Council approve the Treasury Management Strategy as set out in **Appendix D**.

FINANCIAL AND LEGAL IMPLICATIONS

48. The report updates the MTFP to reflect a number of pressures and associated resources.

49. In line with 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

50. This review of the MTFP and projected outturn report 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

51. The report supports the Sustainable Community Strategy.

EQUALITY IMPACT ASSESSMENT

52. The report was not subject to an Equality Impact Assessment. The report does not seek approval for a new policy and impacts of changes through efficiency reviews are considered as part of each review.

CONSULTATION, INCLUDING WARD COUNCILLORS

53. Not applicable.

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Appendix A

STOCKTON ON TEES BOROUGH COUNCIL
PAY POLICY STATEMENT
(Section 38, Localism Act 2011)

This Pay Policy Statement was approved by Full Council on 29 February 2012 and applies to the financial year 2012/13.

1.0 INTRODUCTION

1.1 This document sets out the Council's Pay Policy in relation to the remuneration of its staff in accordance with section 38 of the Localism Act 2011. The policy is subject to annual review which must be approved by Full Council before 31 March each year. Any amendments during the course of the year must also be considered and approved by Full Council. The policy will be published on the Council's website as soon as reasonably practicable after approval or amendment.

1.2 The arrangements set out within this document do not extend to those members of staff who are directly employed by the Governing Body of a school.

1.3 The Council is committed to ensuring fairness, transparency and equality of pay in the remuneration of its employees. The Council aims to deliver high quality services to residents of the Borough and in this regard aims to be an employer of choice recruiting and retaining high quality employees who are valued by their employer.

2.0 DEFINITIONS

2.1 The following definitions will apply throughout this policy statement.

2.2 **'Lowest-paid employees'**
Those staff who are employed in jobs which are paid Grade A (spinal column point 4 and 5) are deemed as being the lowest paid employees other than apprentices.

The salaries attributable to apprentices depend on age and are those set out within the National Minimum Wage legislation. Given the specific nature of these appointments, apprentices have not been included within the definition of lowest paid employees for the purposes of this policy statement.

2.3 **'Chief Officer'**
The Localism Act defines the following Chief Officer posts:
Head of Paid Service designated under section 4(1) of the Local Government and Housing Act 1989;
Monitoring officer designated under section 5(1) of that Act;
Any statutory chief officer mentioned in section 2(6) of that Act;
Any non-statutory chief officer mentioned in section 2(7) of that Act;
Any deputy chief officer mentioned in section 2(8) of that Act.

3.0 CHIEF OFFICERS

3.1 **Remuneration of Chief Officers**
The following principles will apply:

The salaries set out within this Pay Policy Statement will be published as at 31 December of the relevant year.

The grades and salary ranges of chief officers are detailed below, with actual salary information available on the Council's website.

Job	Salary range
Chief Executive*	£169,044 to £175,191
Corporate Director	£123,912 to £128,523
Head of Service Level 1	£91,182 to £94,254
Head of Service Level 2	£77,505 to £80,577
Head of Service Level 3	£63,519 to £66,594

* The Chief Executive has elected not to take his full contractual salary.

3.2 Joint National Conditions of service (JNC) are incorporated into all Chief Officers' contracts of employment.

3.3 The salaries for Chief Officers have been determined through independent analysis and benchmarking and reflect rates which are reasonably sufficient to recruit and retain senior officers taking into account market conditions.

The grades attributable to Senior Officer posts are subject to job evaluation and based on:

- clear salary differentials which reflect the level of responsibility attached to any particular role; and
- increments which are paid annually up to the maximum of the salary range in accordance with the Council's policy

3.4 Chief officers do not receive bonus payments or performance related pay nor do they receive any benefits in kind. Where a chief officer meets the criteria for entitlement to expenses these are paid in accordance with the Council's Single Status Agreement.

Increases in pay for Chief Officers will occur only as a result of:

- pay awards agreed by way of national/local collective pay bargaining arrangements; or
- significant changes to a Chief Officer's role which result in a higher salary being appropriate as confirmed by the outcome of an appropriate job-evaluation process.
- Recruitment and/or retention payments which, in all the given circumstances at the relevant time, are deemed necessary in the best interests of the Council and which are determined under the relevant policy relating to such payments.

3.5 It is expected that senior officers will perform to the highest level and performance related pay does not, therefore, form part of current remuneration arrangements. This position will be reviewed if legislation and/or guidance relating to senior posts is changed.

3.6 In accordance with the requirements of the Localism Act 2011, in respect of new appointments, an offer of a salary package of £100,000 or higher will not be made in respect of any post without the prior approval of the Council.

3.7 **Election Duties undertaken by Chief Officers**

Fees for election duties undertaken by chief officers are not included in their salaries.

For Parliamentary elections the Council receive a Parliamentary Election Order form central government which has already set the fee for each constituency.
In respect of local elections fees are determined separately in consultation with the other Tees Valley Councils. For contested elections the fees are based on an agreed sum for the first 1000 electors and a further sum for each additional 1000 electors or fraction thereof, and a set agreed sum for uncontested elections.

3.8 **Remuneration on appointment**

Chief Officers are recruited in accordance with the Council's Constitution and associated Scheme of Delegation to the minimum of the grade unless there are exceptional circumstances which would warrant appointment above the minimum.

3.9 **Payments to Chief Officers upon termination of their employment**
Chief Officers who cease to hold office or be employed by the Council will receive payments calculated using the same principles as any other member of staff, based on entitlement within their contract of employment, their general terms and conditions, and existing policies.

3.10 In the case of termination of employment by way of early retirement, redundancy (voluntary or otherwise) or on the grounds of efficiency of the service, the Council's Pensions and Retirement Policy sets out provisions which apply to all staff regardless of their level of seniority.

3.11 The Council's Pensions and Retirement Policy also sets out the applicable provisions in respect of awarding additional pension entitlement by way of augmentation or otherwise.

4.0 EMPLOYMENT OF INDIVIDUALS ALREADY IN RECEIPT OF A LOCAL GOVERNMENT PENSION

4.1 The approach to the employment of individuals already in receipt of a local government pension is set by the Teesside Pension Fund. The Fund has resolved not to abate pensions on re-employment, having regard to the enactment of regulations introducing flexible retirement, unless an enhanced ill-health retirement has been awarded.

5.0 EMPLOYMENT OF EX EMPLOYEES AS CHIEF OFFICERS UNDER A CONTRACT FOR SERVICES

5.1 The Council does not generally support the employment of ex employees as Chief Officers under a contract for services. However there may be circumstances where the employment of an ex-employee under these terms is the most effective and efficient way of meeting the Council's needs. If this situation applies formal approval will be sought from the Chief Executive in his role as head of the paid service.

6.0 REMUNERATION OF LOWEST PAID EMPLOYEES

6.1 The Council is committed to ensuring that pay and rewards policies are fair and that the needs of the lowest paid staff are properly considered.

The Council introduced its Single Status Agreement on 1 April 2008. The lowest paid employees within the Council are appointed to jobs which have been evaluated using the NJC Job Evaluation Scheme and are remunerated accordingly.

7.0 RELATIONSHIP BETWEEN CHIEF OFFICER AND NON-CHIEF OFFICER REMUNERATION

7.1 The 'pay multiple' for the Council is determined by comparing the pay of the highest paid employee against the average pay, using hourly rates as at 31 December, for employees within the scope of this statement.

7.2 The Council will aim to maintain a pay multiple of less than 10.

7.3 The Council's current pay multiple is 7.28.

8.0 GENERAL PRINCIPLES REGARDING THE REMUNERATION OF STAFF

8.1 The Council have established pay and grading structures, founded on evaluation of job roles using job evaluation, which ensures a fair and transparent approach to pay and the same grading of jobs which are rated as equivalent. The Single Status Agreement was subject to an equality impact assessment by the Council as well as being approved by the respective trade unions equal pay units.

All employees are recruited in accordance with the Council's Recruitment Policy and are appointed on the minimum of the grade unless there are exceptional circumstances which would warrant appointment above the minimum of the grade.

However, where an employee is redeployed because of redundancy or ill health into a lower graded job they will generally be appointed to the highest spinal column point of the lower grade, where appropriate, with salary protection to minimise the financial loss.

Where an employee has secured promotion into a higher-graded job and there is an overlap of spinal column points between their current and new job, and the employee is already on the maximum of their current grade they will generally commence on the second spinal column point of the new grade.

9.0 PUBLICATION OF AND ACCESS TO INFORMATION RELATING TO REMUNERATION OF CHIEF OFFICERS

9.1 The Council will publish their Pay Policy Statement, following approval of Full Council, on the Council's website. In addition remuneration related data associated with the Pay Policy Statement and Code of Recommended Practice for Local Authorities on Data Transparency will be published on the Council's website no later than 31 March and information related to the public sector equality duty no later than 31 January.

Appendix B

CAPITAL PROGRAMME 2012-2017	Current Approved Programme	New Approvals (Part of Report)	TOTAL
SCHOOL CAPITAL			
Bewley Primary School	1,164,617	0	1,164,617
Norton Primary	610,000	0	610,000
The Glebe Primary	572,723	0	572,723
Bader Primary	39,000	0	39,000
Oakdene Primary	63,000	0	63,000
Our Lady of the Most Holy Rosary RC VA Primary	252,500	0	252,500
Oxbridge Lane Primary	53,000	0	53,000
Egglescliffe CE Primary	220,000	0	220,000
Preston Primary	20,000	0	20,000
Asbestos Removal for Capital Works	100,000	0	100,000
	3,094,840	**0**	**3,094,840**
SCHOOLS CAPITAL	**3,094,840**	**0**	**3,094,840**
HOUSING REGENERATION & TOWN CENTRES SCHEMES			
Housing Regeneration			
Hardwick Regeneration	107,176	0	107,176
Mandale Regeneration	3,642,927	0	3,642,927
Parkfield Regeneration	2,224,274	0	2,224,274
Swainby Road Regeneration	1,561,357	0	1,561,357
Victoria Estate Regeneration	0	3,300,000	3,300,000
Community Energy Saving Programme	650,000	0	650,000
	8,185,734	**3,300,000**	**11,485,734**
Stockton Town Centre Schemes			
Town Heritage Initiative	2,093,650	0	2,093,650
Stockton Heritage in Partnership (SHiP)	94,853	0	94,853
Globe Theatre Refurbishment	1,150,000	0	1,150,000
St John's Crossing	5,465,873	0	5,465,873
Stockton Town Centre Schemes	5,200,058	7,500,000	12,700,058
	14,004,434	**7,500,000**	**21,504,434**
Thornaby Town Centre Schemes			
Thornaby Town Centre Road Realignment	0	1,200,000	1,200,000
	0	**1,200,000**	**1,200,000**
Billingham Town Centre Schemes			
Billingham Town Centre - Public Realm	1,600,000	0	1,600,000
Billingham Library & Contact Facility	1,276,800	1,500,000	2,776,800
	2,876,800	**1,500,000**	**4,376,800**
HOUSING REGENERATION & TOWN CENTRES SCHEMES	**25,066,968**	**13,500,000**	**38,566,968**
TRANSPORTATION			
Local Transport Plans			
LTP - Integrated Transport	0	946,000	946,000
LTP - Structural Maintenance	0	2,098,000	2,098,000
	0	**3,044,000**	**3,044,000**
Developer Agreements			
Yarm Road - Access to Housing Site	411,000	0	411,000
Cheltenham Road Access To Trade Park	0	898,000	898,000
Preston Lane, Preston Farm Housing Development	0	37,100	37,100
Victoria Bridge Cycle Link	0	7,600	7,600
	411,000	**942,700**	**1,353,700**

Description	Current Approved Programme	New Approvals (Part of Report)	TOTAL
Tees Valley Bus Network Initiative			
Tees Valley Bus Network Initiative	2,536,323		2,536,323
	2,536,323	**0**	**2,536,323**
TRANSPORTATION	**2,947,323**	**3,986,700**	**6,934,023**
OTHER SCHEMES			
Private Sector Housing			
Disabled Adaptations	1,005,000	450,000	1,455,000
Empty Homes - Regional Scheme	0	500,000	500,000
Regional Loan Scheme	200,000	0	200,000
Empty Properties (EDMO's)	58,000	0	58,000
	1,263,000	**950,000**	**2,213,000**
Facilities Management			
Building Maintenance Programme	168,000	600,000	768,000
	168,000	**600,000**	**768,000**
Resources / ICT			
A2S: ICT Cost	114,167	0	114,167
Broadband Infrastructure	0	140,000	140,000
Replacement Scanners	100,000	0	100,000
Server Virtualisation	178,029	0	178,029
	392,196	**140,000**	**532,196**
Other Schemes			
Vehicle Replacement Fund	1,689,375	0	1,689,375
Preston Hall - Museum Project	302,744	0	302,744
Parks Improvement Programme	347,000	0	347,000
Youth Café Developments	202,830	0	202,830
Wheeled Park Facilities	0	200,000	200,000
Cemeteries	0	150,000	150,000
	2,541,949	**350,000**	**2,891,949**
OTHER SCHEMES	**4,365,145**	**2,040,000**	**6,405,145**
Total Approved Capital MTFP	**35,474,276**	**19,526,700**	**55,000,976**

Financed By:	Current Approved Programme	New Approvals (Part of Report)	TOTAL
Government Support	(3,094,840)	(3,494,000)	(6,588,840)
Other Grants	(11,107,446)	(150,000)	(11,257,446)
Earmarked Resources / Receipts	(12,150,682)	0	(12,150,682)
Earmarked Housing Regeneration Receipts	(5,889,199)	0	(5,889,199)
Prudential Borrowing	(195,545)	0	(195,545)
Other Contributions	(740,029)	(1,692,700)	(2,432,729)
Corporate One-Off Resources	0	(3,390,000)	(3,390,000)
VAT Shelter	(2,296,535)	(5,523,000)	(7,819,535)
Corporate Resources (Cash Flow Town Centre & Housing)	0	(5,277,000)	(5,277,000)
Total Approved Funding Capital MTFP	**(35,474,276)**	**(19,526,700)**	**(55,000,976)**

Note - The above table does not include £6.2m of School Capital Resources

Appendix C

Council Tax Resolution

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

1. The Council calculated as its Council Tax Base for the year, in accordance with Section 31B (3) of the Local Government Finance Act 1992, as amended (the Act), and reported to the Leader and Cabinet Member for Corporate & Social Inclusion on 5 December 2011.

Tax Base approved under the Scheme of Delegation on the 5 December 2011

   a) the amount calculated by the Council in accordance with Section 31B, as its Council Tax Base for the year: **59,341.16**

   b) the amounts calculated by the Council 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	91.53
Carlton	299.59
Castleleavington / Kirklevington	497.06
Egglescliffe & Eaglescliffe	3086.22
Elton	135.14
Grindon	1265.96
Hilton	217.66
Ingleby Barwick	6939.87
Long Newton	337.61
Maltby	148.08
Preston	595.25
Redmarshall	149.06
Stillington & Whitton	374.75
Thornaby	6746.91
Wolviston	392.59
Yarm	3307.99
Billingham	10276.08

2. The amounts for the year that were approved by the Council on **xxxx** in accordance with Section 31A of the Act :

   a) The aggregate amount that the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act: **£428,681,631**.

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 31A(3) (a) to (d) of the Act: **£353,047,283**.

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

   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 31A(4) of the Act, as its **council tax** requirement for the year: **£75,634,348.**

The Council's Council Tax Requirement for the year including Parish Precepts

d) 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 31B(1) of the Act, as the basic amount of its Council Tax for the year (including Parish precepts); £1,274.57

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

e) The aggregate amount of all special items referred to in Section 34(1) of the Act: **£617,577**

The total of all Parish precepts.

f) The basic amount of Council Tax for those parts of the area to which no special items relate: **£1,264.16**

Stockton-on-Tees Borough's Basic Tax

B. Members are invited to **Note**

3. Parish Precepts are:

Part of the Council's Area	**2012/2013 Precept**	**Band D Equivalent**
	£	**£**
Aislaby & Newsham	0	0.00
Carlton	4,524	15.10
Castleleavington / Kirklevington	10,000	20.12
Egglescliffe & Eaglescliffe	69,553	22.54
Elton	0	0.00
Grindon	6,000	4.74
Hilton	1,985	9.12
Ingleby Barwick	131,850	19.00
Long Newton	6,500	19.25
Maltby	2,500	16.88
Preston	5,500	9.24
Redmarshall	2,500	16.77
Stillington & Whitton	8,000	21.35
Thornaby	137,000	20.31
Wolviston	10,582	26.95
Yarm	91,550	27.68
Billingham	129,533	12.61
	617,577	

4. Cleveland Police Authority has stated the sum of **£xxxx** 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 Police Authority Tax

Band	**Sum**
	£
A	
B	
C	
D	
E	
F	
G	
H	

5. Cleveland Fire Authority has stated the sum of **£3,946,189** 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	44.33
B	51.72
C	59.11
D	66.50
E	81.28
F	96.06
G	110.83
H	133.00

C. Members are **Recommended** to set amounts of Council Tax for the year, being the aggregate of items 2 (f) 3,4 and 5 above in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, for each category of dwelling in each area as shown as shown at **Appendix C(1),C(2),C(3)**.

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

D. Members are also invited to Note

1. Each year the Secretary of State in accordance with Section 52 Local Government Finance Act 1992 will determine a limit for council tax rises. If an authority proposes to raise taxes above this limit they will have to hold a referendum to get approval from local voters.

Determination whether Council tax rate is excessive

2. The limit for council tax rises applicable to the authority as set by the Secretary of State for 2012/13 is 3.5%.

E. Members are asked to Note that the Council's basic amount of Council Tax for 2012/13 is not excessive in accordance with the principles approved under Section 52ZB Local Government Finance Act 1992 and D above and that a referendum is not required.

Council Tax - Parish Demands
2012/2013

Item	Parish	Band							
		A £	B £	C £	D £	E £	F £	G £	H £
1	Aislaby and Newsham	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2	Carlton	10.07	11.74	13.42	15.10	18.46	21.81	25.17	30.20
3	Castleleavington / Kirklevington	13.41	15.65	17.88	20.12	24.59	29.06	33.53	40.24
4	Egglescliffe	15.03	17.53	20.04	22.54	27.55	32.56	37.57	45.08
5	Elton	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6	Grindon	3.16	3.69	4.21	4.74	5.79	6.85	7.90	9.48
7	Hilton	6.08	7.09	8.11	9.12	11.15	13.17	15.20	18.24
8	Ingleby Barwick	12.67	14.78	16.89	19.00	23.22	27.44	31.67	38.00
9	Long Newton	12.83	14.97	17.11	19.25	23.53	27.81	32.08	38.50
10	Maltby	11.25	13.13	15.00	16.88	20.63	24.38	28.13	33.76
11	Preston	6.16	7.19	8.21	9.24	11.29	13.35	15.40	18.48
12	Redmarshall	11.18	13.04	14.91	16.77	20.50	24.22	27.95	33.54
13	Stillington & Whitton	14.23	16.61	18.98	21.35	26.09	30.84	35.58	42.70
14	Thornaby	13.54	15.80	18.05	20.31	24.82	29.34	33.85	40.62
15	Wolviston	17.97	20.96	23.96	26.95	32.94	38.93	44.92	53.90
16	Yarm	18.45	21.53	24.60	27.68	33.83	39.98	46.13	55.36
17	Billingham	8.41	9.81	11.21	12.61	15.41	18.21	21.02	25.22

Appendix C(2)

Council Tax - Borough and Parish Demands
2012/2013

Item	Parish	Band							
		A	B	C	D	E	F	G	H
	Factor	6	7	8	9	11	13	15	18
		£	£	£	£	£	£	£	£
1	Aislaby and Newsham	842.77	983.24	1,123.70	1,264.16	1,545.08	1,826.01	2,106.93	2,528.32
2	Carlton	852.84	994.98	1,137.12	1,279.26	1,563.54	1,847.82	2,132.10	2,558.52
3	Castleleavington / Kirklevington	856.18	998.89	1,141.58	1,284.28	1,569.67	1,855.07	2,140.46	2,568.56
4	Egglescliffe	857.80	1,000.77	1,143.74	1,286.70	1,572.63	1,858.57	2,144.50	2,573.40
5	Elton	842.77	983.24	1,123.70	1,264.16	1,545.08	1,826.01	2,106.93	2,528.32
6	Grindon	845.93	986.93	1,127.91	1,268.90	1,550.87	1,832.86	2,114.83	2,537.80
7	Hilton	848.85	990.33	1,131.81	1,273.28	1,556.23	1,839.18	2,122.13	2,546.56
8	Ingleby Barwick	855.44	998.02	1,140.59	1,283.16	1,568.30	1,853.45	2,138.60	2,566.32
9	Long Newton	855.60	998.21	1,140.81	1,283.41	1,568.61	1,853.82	2,139.01	2,566.82
10	Maltby	854.02	996.37	1,138.70	1,281.04	1,565.71	1,850.39	2,135.06	2,562.08
11	Preston	848.93	990.43	1,131.91	1,273.40	1,556.37	1,839.36	2,122.33	2,546.80
12	Redmarshall	853.95	996.28	1,138.61	1,280.93	1,565.58	1,850.23	2,134.88	2,561.86
13	Stillington & Whitton	857.00	999.85	1,142.68	1,285.51	1,571.17	1,856.85	2,142.51	2,571.02
14	Thornaby	856.31	999.04	1,141.75	1,284.47	1,569.90	1,855.35	2,140.78	2,568.94
15	Wolviston	860.74	1,004.20	1,147.66	1,291.11	1,578.02	1,864.94	2,151.85	2,582.22
16	Yarm	861.22	1,004.77	1,148.30	1,291.84	1,578.91	1,865.99	2,153.06	2,583.68
17	Billingham	851.18	993.05	1,134.91	1,276.77	1,560.49	1,844.22	2,127.95	2,553.54
18	Areas without Parish Councils	842.77	983.24	1,123.70	1,264.16	1,545.08	1,826.01	2,106.93	2,528.32

Appendix C(3)

Council Tax - Total Demand (Borough, Parishes, Police and Fire) 2012/2013

Item	Parish	Band							
		A	B	C	D	E	F	G	H
		£	£	£	£	£	£	£	£
1	Aislaby and Newsham								
2	Carlton								
3	Castleleavington / Kirklevington								
4	Egglescliffe								
5	Elton								
6	Grindon								
7	Hilton								
8	Ingleby Barwick								
9	Long Newton								
10	Maltby								
11	Preston								
12	Redmarshall								
13	Stillington & Whitton								
14	Thornaby								
15	Wolviston								
16	Yarm								
17	Billingham								
18	Areas without Parish Councils								
	Police Precept included - all areas								
	Fire Precept Included - all areas								

Appendix D

PRUDENTIAL CODE AND TREASURY MANAGEMENT STRATEGY 2012/13 – 2014/15

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, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators, and introduces new indicators for 2014/15.
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 2012/13 to 2014/15 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 Prudential Indicators 2012/13 – 2014/15

3. The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.
4. The Council is recommended to approve the summary capital expenditure and financing projections below; service details are shown in the main budget report. This forms the first prudential indicator:

	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Capital Expenditure			
Non-HRA	30,154	17,496	4,944
Total Financing			
Government Support excluding Credit Approvals	6,289	150	150
Other Grants	7,867	2,111	1,162
Earmarked Capital Resources/Receipts	9,684	13,692	3,041
Earmarked Housing Regeneration Receipts	3,686	1,542	591
Capital Contributions	2,432	1	0
Net financing need (borrowing) for the year	196	0	0
(of which Prudential Borrowing)	196	0	0

Please note that following the Stock Transfer the Council no longer operates a Housing Revenue Account (HRA). The HRA will formally close on 31st March 2012 following the audit of the HRA Subsidy Claim during 2011/12.

5. Other long term liabilities – The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

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

6. 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.

7. Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £7.5 million of such schemes within the CFR.

8. The Council is recommended to approve the CFR projections below:

	2010/11 Actual £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Capital Financing Requirement					
CFR – Non Housing	126,875	126,295	120,615	114,911	109,395
CFR-PFI	7,899	7,491	7,165	7,137	6,863
Total CFR	134,774	133,786	127,780	122,048	116,258
Movement in CFR	1,343	(988)	(6,006)	(5,732)	(5,790)

Movement in CFR represented by					
Net financing need for the year (above)	7,062	5,279	196	0	0
MRP/VRP and other financing movements	(5,719)	(6,267)	(6,202)	(5,732)	(5,790)
Movement in CFR	1,343	(988)	(6,006)	(5,732)	(5,790)

MRP Policy Statement

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

10. 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.

11. The Council is recommended to approve the following MRP Statement:-

    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;

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

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

- 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);

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

Repayments included in annual PFI or finance leases are applied as MRP.

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.

	2010/11 Actual %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Non-HRA	2.8	0.6	0.8	0.8	0.6
HRA	18.5	No longer applicable	No longer applicable	No longer applicable	No longer applicable

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, which are not published over a three year period. As there are no plans to use borrowing in the next three years and prudential borrowing is being financed from savings in services, there is no impact on future Council Tax levels.

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

	Forward Projection 2012/13 £	Forward Projection 2013/14 £	Forward Projection 2014/15 £
Council Tax - Band D	0.00	0.00	0.00

TREASURY MANAGEMENT STRATEGY 2012/13 – 2014/15

1. The capital expenditure plans set out above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require,

the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Treasury position and forward projections

2. The Council's treasury portfolio position at 31st March 2011, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement- CFR), highlighting any over or under borrowing.

	2010/11 Actual £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
External Debt					
Debt at 1 April	258,397	56,530	56,489	56,266	56,237
Maturing Debt	(210)	(41)	(223)	(29)	(8,193)
LSVT	(151,234)				
Early Repayment	(50,423)				
New Debt taken/to be taken out	0	0	0	0	0
Debt at 31 March	56,530	56,489	56,266	56,237	48,044
The Capital Financing Requirement (ex PFI)	126,875	126,295	120,615	114,911	109,395
(under)/over borrowed	(70,345)	(69,806)	(64,349)	(58,674)	(61,351)
Total Investments at 31 March	86,625	80,000	80,000	80,000	80,000
Investment change	(45,790)	(6,625)	0	0	0
Net Debt	(30,095)	(23,511)	(23,734)	(23,763)	(31,956)

Limits to Borrowing Activity

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

4. For the first of these the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 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.

5. 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 this budget report.

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

7. **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.

8. **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.

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

Authorised limit	2011/12 Estimate £'000	2012/13 Estimated £'000	2013/14 Estimated £'000	2014/15 Estimated £'000
Borrowing	150,095	156,415	152,711	149,195
Other long term liabilities	7,491	7,165	7,137	6,863
Total	157,586	163,580	159,848	156,058
Operational Boundary				
Borrowing	126,295	132,615	128,911	125,395
Other long term liabilities	7.491	7,165	7,137	6,863
Total	133,786	139,780	136,048	132,258

The Prospects for Interest Rates

10. The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Sector's central view.

	Base Rate %	1 Year Investment Rate %	25 Year PWLB Borrowing Rate %
March 2012	0.50	1.50	4.20
June 2012	0.50	1.50	4.20
September 2012	0.50	1.50	4.30
December 2012	0.50	1.60	4.30
March 2013	0.50	1.70	4.40
June 2013	0.50	1.80	4.50
September 2013	0.75	1.90	4.60
December 2013	1.00	2.20	4.70
March 2014	1.25	2.40	4.80
June 2014	1.50	2.60	4.90

11. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

12. Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

13. This challenging and uncertain economic outlook has several key treasury management implications:-

    - The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
    - Investment returns are likely to remain relatively low during 2012/13;
    - Borrowing interest rates are currently attractive, but remain low for some time. The timing of any borrowing will need to be monitored carefully;
    - There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

14. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This measure is prudent as investment returns are low and counterparty risk is high.

15. Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Corporate Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

    - *If it was felt that there was a significant risk of a sharp FALL in long and short term rates*, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed.
    - *If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast*, perhaps from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the borrowing portfolio will be re-appraised with the likely action that fixed rate borrowing will be undertaken whilst interest rates were still relatively cheap.

Treasury Management Limits on Activity

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

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

17. The Council is asked to approve the following treasury indicators and limits:

	2012/13	2013/14	2014/15
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates:- • Debt only • Investments only	 100% 100%	 100% 100%	 100% 100%
Limits on variable interest rates:- • Debt only • Investments only	 100% 100%	 100% 100%	 100% 100%

Maturity Structure of fixed interest rate borrowing 2010/11		
	Lower	Upper
Under 12 months	0%	15%
12 months to 2 years	0%	20%
2 years to 5 years	0%	55%
5 years to 10 years	0%	75%
10 years and above	0%	100%

Policy on Borrowing in Advance of Need

18. The Council will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward

approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the quarterly or annual reporting mechanism.

Debt Rescheduling

19. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, given the Council's loan portfolio consists mainly of market rather than PWLB debt, any opportunities for rescheduling will be very limited. Consequently, any savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

20. The reasons for any rescheduling to take place will include;

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

21. The option of postponing borrowing and running down investment balances even further will also be considered. This would reduce counter-party risk and also mitigate against any expected fall in future investment returns as short term rates on investments are likely to be lower than rates paid on current debt.

Annual Investment Strategy

Investment Policy

22. The Council's investment policy has regard to CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities (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 set out above, the current investment climate has one over-riding risk consideration, that of counter-party security risk.

23. In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list accounts for the ratings and watches published by all three rating agencies. The Council's Treasury Management advisors, Sector, notify the Council of any changes to counterparty ratings.

24. The Council's officers recognise that ratings are not the sole determinant of the quality of an institution and that it is important to assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. To this end the Council will also take into account other information such as Credit Default Swap pricing, articles in the financial press, share prices and any other information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of investment counterparties.

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

Creditworthiness policy

26. The Council applies the approach suggested by CIPFFA of using the lowest rating from all three rating agencies together with sources of information outlined in paragraph 24 above to determine

the creditworthiness of counterparties. The minimum ratings the Council will use are a short term rating of F2 (Fitch), P2 (Moody's), and A-2 (Standard & Poors).

27. Credit ratings are monitored daily as the Council is alerted to changes to ratings by its advisor, Sector. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for new investment will be withdrawn immediately. Sole reliance will not be placed on ratings. The Council will use a variety of information, such as Credit Default Swap prices, financial data, information on government support for banks and the credit ratings of that government support when coming to any judgement on creditworthiness.

Country limits

28. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign rating of AA from Fitch or equivalent.

Investment Counter-party Selection Criteria

29. 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.

30. 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 types of investment instruments are to be used.

31. 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.

32. 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.

33. 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-Part nationalised UK banks –** Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings criteria in Banks 1 above.
- **Banks 3**-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 provided an appropriate guarantee or 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,
- **Money Market Funds –** currently the Council does not use any money market funds. The position will be kept under review and if circumstances change a report will be prepared to consider their use.
- **UK Government** (including the Debt Management Office)-unlimited
- **Local Authorities, Police & Fire Authorities**-limit £10m each

34. **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 £60m 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.
35. **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 Credit Default Swaps, negative rating watches/outlooks, annual reports, will be applied to compare the relative security of differing investment counter-parties.
36. **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 each	1-3 years
Middle Limit Category (short term)	F2	P2	A-2	£15m each	Up to and including 364 days
Lower Limit Category	Unrated Building Societies with assets in excess of £2 billion			£7m each	Up to and including 364 days
Other Institutions					
Money Market Funds	AAA	AAA	AAA	Currently not used	Up to and including 364 days
UK Government	-	-	-	unlimited	unlimited
Local Authorities, Police and Fire Authorities	-	-	-	£10m each	Up to and including 364 days

(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).

37. The proposed criteria for Specified and Non-Specified investments are shown in Annex A for approval.

38. 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.

39. 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.

Investment Strategy

40. Investments will be made with reference to cash flow requirements and the outlook for interest rates up to 3 years.

41. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends are:

- 2011/12 0.50%
- 2012/13 0.50%
- 2013/14 1.25%
- 2014/15 2.50%

42. There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

43. The suggested budgeted investment earnings rates for returns on investments for the next three years are as follows:

- 2012/13 1.50%
- 2013/14 1.50%
- 2014/15 2.00%

Investment treasury indicator and limit

44. This sets a limit on the total principal invested for periods greater than 364 days. The limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

	2012/13	2013/14	2014/15
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m 60	£m 60	£m 60

Performance Indicators

46. 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.

47. The following indicators will be reported in the annual report on treasury management activity for 2011/12:-

- 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

48. The Council uses Sector 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.

49. 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

50. 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 Sector, the Council's advisers, who organise regular seminars and also produce regular newsletters and papers on treasury management issues.

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

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

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires 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, police or fire authority limit £10m each
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating (AAA) by a credit rating agency-no accounts are currently open.
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. These are rated AAA by the rating agencies (the highest security rating possible). The Council had approved the use of one fund, Standard Life, but in recent times investment returns from money market funds in general has been poor and consequently our account with Standard Life has been closed. Investment returns from money market funds will continue to be monitored and should returns improve then a report will be prepared to consider their use.

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 and including 364 days

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.	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
d.	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 and including 364 days)	£7m each
e.	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 each
f.	Any non rated subsidiary of a credit rated institution included in the specified investment category.	£0
g.	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and	£0

	as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	
h.	**Pooled property or bond funds.** The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application of capital resources.	£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, Sector, as and when ratings change, 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.

Annex B

Estimated Debt Outstanding at 31st March 2012

Loan	Lender	Start	Maturity	Interest	Outstanding Debt
12 months & under					
475160	PWLB	01-Jan-2004	30-Jun-2012	8.75	26,716.74
468402	PWLB	01-Jan-2004	30-Sep-2012	11.625	13,358.37
464122	PWLB	14-Mar-1988	31-Jan-2013	9.25	142,107.88
470212	PWLB	01-Jan-2004	31-Mar-2013	10.5	26,716.74
					208,899.73
1 year to 5 years					
468403	PWLB	01-Jan-2004	30-Sep-2013	11.625	12,498.80
467056	PWLB	10-Jul-1989	31-Jul-2014	9.625	142,107.88
	Bayerische	01-Jan-2004	10-Dec-2014	8.87	8,000,000.00
467065	PWLB	01-Jan-2004	31-Mar-2015	9.625	32,060.09
467832	PWLB	18-Dec-1989	31-Jul-2015	10	49,164.12
467057	PWLB	10-Jul-1989	31-Jul-2015	9.625	142,107.88
476058	PWLB	01-Jan-2004	31-Dec-2015	8	26,716.74
466492	PWLB	01-Jan-2004	31-Mar-2016	9.25	21,373.39
467058	PWLB	10-Jul-1989	31-Jul-2016	9.625	142,107.88
471705	PWLB	01-Jan-2004	30-Sep-2016	9.875	4,809.01
471706	PWLB	01-Jan-2004	30-Sep-2016	9.875	9,885.19
466493	PWLB	01-Jan-2004	31-Mar-2017	9.25	16,030.04
					8,598,861.02
5 years to 10 years					
480866	PWLB	01-Jan-2004	30-Jun-2017	5.75	26,716.74
463966	PWLB	08-Feb-1988	31-Jan-2018	9.5	213,161.82
464618	PWLB	01-Jan-2004	31-Mar-2018	9.25	26,716.74
467059	PWLB	10-Jul-1989	31-Jul-2018	9.625	142,107.88
467066	PWLB	01-Jan-2004	31-Mar-2019	9.625	14,138.05
467574	PWLB	10-Oct-1989	31-Jul-2019	9.75	71,053.94
	Scottish Provident	04-Feb-1986	04-Feb-2021	11.5	2,000,000.00
467526	PWLB	01-Jan-2004	31-Mar-2021	9.75	8,492.19
484303	PWLB	01-Jan-2004	30-Jun-2021	5.75	1,180.50
479996	PWLB	01-Jan-2004	31-Dec-2021	6.375	16,030.04
					2,519,597.90
10 years and above					
479482	PWLB	01-Jan-2004	30-Jun-2022	7.125	26,716.74
	Barclays	01-Jan-2004	03-Nov-2022	8.99	4,000,000.00
480389	PWLB	01-Jan-2004	31-Mar-2025	6.25	16,030.04
	Depfa	26-Jun-2001	26-Jun-2026	5.03	5,000,000.00
478327	PWLB	01-Jan-2004	31-Dec-2026	7.875	26,716.74
486677	PWLB	01-Jan-2004	31-Dec-2026	5.25	16,030.04
465102	PWLB	18-Aug-1988	31-Jul-2028	9.375	177,634.85
473557	PWLB	01-Jan-2004	30-Sep-2028	7.875	10,686.70
481266	PWLB	01-Jan-2004	31-Dec-2028	5.375	16,030.04
402348	PWLB	15-Sep-1969	31-Jul-2029	9.375	532.85
402349	PWLB	15-Sep-1969	31-Jul-2029	9.375	325.84

466016	PWLB	24-Jan-1989	31-Jul-2033	9.25	39,696.96
	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
491100	PWLB	23-Jan-2006	31-Mar-2051	3.7	284,215.76
491979	PWLB	24-Aug-2006	31-Jan-2052	4.25	177,634.85
491981	PWLB	24-Aug-2006	31-Mar-2052	4.25	177,634.85
491982	PWLB	24-Aug-2006	30-Sep-2052	4.25	177,634.85
493326	PWLB	30-May-2007	31-Mar-2053	4.6	177,634.85
493327	PWLB	30-May-2007	30-Sep-2053	4.6	177,634.85
492196	PWLB	28-Sep-2006	30-Sep-2053	4.05	106,580.91
492197	PWLB	28-Sep-2006	31-Mar-2054	4.05	106,580.91
493328	PWLB	30-May-2007	31-Mar-2054	4.6	177,634.85
493229	PWLB	30-May-2007	30-Sep-2054	4.6	177,634.85
493330	PWLB	30-May-2007	31-Mar-2055	4.6	177,634.85
493331	PWLB	30-May-2007	30-Sep-2055	4.6	177,634.85
492919	PWLB	15-Feb-2007	30-Sep-2055	4.4	177,634.85
492920	PWLB	15-Feb-2007	30-Sep-2055	4.4	177,634.85
492921	PWLB	15-Feb-2007	31-Mar-2056	4.4	177,634.85
492922	PWLB	15-Feb-2007	31-Mar-2056	4.4	177,634.85
493332	PWLB	30-May-2007	31-Mar-2056	4.6	172,424.39
492923	PWLB	15-Feb-2007	30-Sep-2056	4.4	177,634.85
492924	PWLB	15-Feb-2007	30-Sep-2056	4.4	177,634.85
492925	PWLB	15-Feb-2007	31-Jan-2057	4.4	177,634.85
492926	PWLB	15-Feb-2007	31-Jan-2057	4.4	177,634.85
494748	PWLB	15-Aug-2008	31-Mar-2058	4.39	142,107.88
	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
					45,162,103.10
GRAND TOTAL					**56,489,461.75**

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	unlimited
UPPER LIMIT/LONG TERM		
Clearing Banks with at least AA- Fitch, Aa3 Moody's or AA- S & P Rating		
HSBC 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		
Barclays Bank	15	364 days
Close Brothers Ltd	15	364 days
Clydesdale Bank (part of National Australia Group)	15	364 days
Co- Op Bank	15	364 days
Lloyds TSB Group	15	364 days
Northern Rock (Virgin Money)	15	364 days
RBS Group	15	364 days
Santander UK Group	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	15	364 days
Nottingham	15	364 days
Yorkshire	15	364 days
LOWER LIMIT		
Building Societies with an asset base of £2 billion +		
Newcastle	7	364 days
Principality	7	364 days
Skipton	7	364 days
West Bromwich	7	364 days
Local Authorities	10	364 days
Money Market Funds	Under review	