2011/2012

REVENUE AND CAPITAL BUDGETS

City and County of Swansea
Dinas a Sir Abertawe

The City & County of Swansea
Dinas a Sir Abertawe

Revenue and Capital Budgets 2011/12

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Medium Term Financial Plan 2012/13 – 2014/15

Report of the Section 151 Officer

Extraordinary Council – 28th February 2011

MEDIUM TERM FINANCIAL PLAN 2012/13 – 2014/15

Purpose:	This report proposes a Medium Term Financial Plan 2012/13 - 2014/15
Policy framework:	None
Reason for decision:	To agree a financial framework for future service planning
Consultation:	Cabinet Members & Corporate Management Team

1. Introduction

1.1 This report details:

- An overview of Revenue and Capital budget planning
- A service and financial overview
- A spending and resources forecast
- Potential savings options
- Strategies and plans for achieving future savings
- Risks and uncertainties

2. Overview of Revenue and Capital Budget Planning

2.1 Service and financial planning is undertaken against a backcloth of limited resources.

Whilst the annual Capital budget is by necessity a medium term assessment of spending requirements and resources, the Revenue budget is primarily an annual assessment of spending and financing requirements.

The Medium Term Financial Plan (MTFP) is an overarching plan which:

- Brings together the annual budget assessments in a financial plan covering several future years.
- Forecasts future additional spending requirements including new legislation, demographics changes, service demand and other known issues.
- Forecasts future resources
- Highlights funding shortfalls
- Identifies potential savings options to resolve the shortfalls
- Proposes medium to long term strategies and plans for achieving the savings and the Council's overall objectives

3. Service and Financial Overview

Background

3.1 The Revenue and Capital budgets for 2011/12 and the MTFP for the following 3 years are the financial expressions of the priorities and pressures which the Council faces.

3.2 The Council is impacted upon by the financial environment at UK, Wales and local level. Priority choices at each level of government will impact locally as of course will local decisions.

3.3 This section of the report seeks to summarise the key issues and drivers and present a context in which budget proposals are made.

Economic Outlook

3.4 Following the banking crisis and consequent recession, the UK Government is pursuing a policy of deficit reduction. A key plank of this policy for the next 3-5 years is the reduction of public expenditure as a proportion of GDP; the repayment of debt and the promotion of growth in the private sector.

3.5 The Welsh Assembly Government (WAG) receives its funding from Westminster via the Barnett Formula. Decisions on overall funding levels at Westminster are reflected in the formula. For example, the protection at UK level of Education and Health, directly increases resources available to the Welsh Assembly Government (WAG).

3.6 WAG has published its budget for the next three years and in doing so, has shown its intention to protect Education and Social Services to some degree.

3.7 In overall terms, it can be anticipated that during the current planning period, settlements will remain extremely tight. Monetary policy could well lead to increasing inflation. Based on published figures, WAG grant settlements will almost certainly not keep pace with inflation so it is probable that real terms cuts in available funds will be the norm for the foreseeable future.

3.8 Pay restraint, or indeed zero pay rises, may well persist during the planning period.

3.9 Local Government is challenged to develop ever more customer focused services especially in difficult financial times. The pursuit of efficiency, flexible working, joint working and shared services will feature heavily in the future agenda.

Service Summaries

3.10 The strategic context for key services can be summarised as follows:

Education

There is a need to improve standards of achievement and attainment against a backcloth of significant levels of poverty impacting on educational outcomes; falling secondary school rolls; increased demand for Welsh Medium Education and the need to modernise school premises. The proportion of the overall Education budget delegated to schools needs to be increased over time in line with Assembly requirements. The proposals for doing this are attached at appendix 3.

Adult Services

An increasingly aged population will create not only greater demand for services but also change the nature of that demand. There will be a need for service change that responds to the personalisation agenda and the reduction in the working age population.

Child and Family Services
The delivery of the Improvement Plan seeks to ensure that the vulnerable are protected, families are supported and outcomes for all children improved. It is important that there continues to be a focus on the development work that is being undertaken. This is necessary to achieve the required changes so that the nature of support better reflects need and the local situation. The outcome of this work will result in a reduction in the number of looked after children and an improved range of support available. In seeking to undertake the further change that has been identified, as previously agreed, a financial recovery plan will be used as the basis for the improvement agenda.

The cost of the service must reduce in line with the financial recovery plan whilst service standards continue to improve.

Waste Management
The cost of disposal of residual waste and the regime of financial penalties is a major issue for the Council. Recycling must be increased and regional disposal arrangements must be delivered including provision for food waste treatment.

Workforce
The workforce is both the Council's major asset and its major cost. During this planning period, the Council must complete its work on 'Single Status' to ensure that it has an 'equal pay' compliant pay and grading system. Modernisation of Terms and Conditions and the continued introduction of flexible working arrangements are key to the delivery of efficiency savings. There is inevitably a need for headcount reduction if financial sustainability is to be achieved.

City Centre
Revenue expenditure is reducing but capital expenditure is likely to reduce at an even greater level. The need to develop the City Centre is largely dependent on capital expenditure and will require the use of convergence funding and continued working with the private sector. This will be extremely challenging in current market conditions.

Priorities and plans

3.11 Each year the Council adopts a Corporate Improvement Plan. The Plan states the Council's vision, and details its values. The vision is summarised "by 2020 Swansea will aim to be a distinctive European City" and the values are, teamwork, innovation, openness, respect, enthusiasm and caring.

3.12 Whilst it is inevitable and appropriate, that improvement objectives will need to be reviewed in the light of resources, the current objectives are to :

- Improve services for children and young people and in particular to maximise well being; raise standards of attainment and achievement; ensure services are safe and services provide excellent education opportunities

- Improve and protect our environment and make communities feel safer so that the City and County of Swansea is a great place to live

- Improve Swansea's economic performance so that the City and County of Swansea supports a prosperous economy

- Improve Health and Social Care Services for all so that the City and County of Swansea supports and promotes good health

3.13 In the light of the imminent financial settlement, Council approved a 'Statement of Budget Principles and Priorities' at its October meeting.

3.14 The principles can be summarised as:

- consultation where appropriate
- continue statutory services but review delivery methods
- increase workforce flexibility
- minimise overheads
- leaner management
- 'One Council' approach
- priority based decisions
- prioritise frontline services
- no untouchables
- promote regional and joint working

3.15 The priorities, which are not excluded from the drive for efficiency, were stated as:

- protection of the most vulnerable people
- direct pupil services
- defined street scene services

Projects and Programmes

3.16 A number of key projects and programmes exist in order to deliver this challenging agenda. Whilst the detail of these projects and programmes can be obtained elsewhere, they can however be summarised as follows:

QEd2020

- raise standards of achievement and attainment for all children and young people
- improve the quality of the learning environment
- make the best use of human, physical and financial resources

Waste Management Strategy

- regional procurement of residual waste
- waste minimisation/ recycling
- regional procurement of food waste treatment

Workforce Programme

- HR systems development
- pay and grading
- pay modernisation
- headcount reduction
- workforce planning

Child and Family Improvement Plan

- service improvement
- financial recovery plan

Leisure Trusts

- future models of service provision.

Other Efficiency and Cost Improvement Activity

- procurement Strategy
- recruitment freeze
- spending restrictions
- voluntary redundancy
- partnership, collaboration and joint working
- shared services
- regional working
- systems development

3.17 Achieving financial sustainability will require not only the delivery of specific budget proposals but also the successful management of projects and programmes and the delivery of the improvement programme.

4. Spending and Resources Forecast

Overview

4.1 The Capital Budget report forecasts capital spending and resources in the period covered by the MTFP.

4.2 This report forecasts revenue spending and resources in the period covered by the MTFP.

Based on the assumptions detailed below, the forecast shortfall in each year is as follows:

	£m
2012/13	6.1
2013/14	12.1
2014/15	20.3

Resources

4.3 Annual spending is financed by Assembly Grants, Council Tax levies and a range of fees and charges. All three sources of finance are effectively constrained as follows:

Assembly grants

General Grant (known as Revenue Support Grant) and Specific Grants are constrained within the overall WAG budget as determined by the UK Government.

Council Tax

The ability of Council Taxpayers to meet above inflation increases effectively constrains annual increases.

Fees and charges

Many annual increases are specified by WAG and other bodies. Price elasticity of demand also effectively limits the extent of annual increases over and above inflation.

4.4 Revenue Support Grant will finance 77% of net spending in 2011/12. WAG has indicated that only small increases will apply in future years as follows:

2012/13	+0.6%
2013/14	+1.4%

The Assembly has not stated a figure for 2014/15 and it is assumed for the purpose of this MTFP that no increase or decrease will apply in 2014/15. This of course, may not be the case. Given the key significance of this assumption in 2014/15, the implications of better or worse WAG settlements are as follows:

3% reduction in RSG	= shortfall increases by £9m
3% increase in RSG	= shortfall decreases by £9m

4.5 Each 1% increase in Council Tax yields £866,000. As such, this rate of increase will not be sufficient to resolve the forecast shortfalls in future years. No assumption is made about future Council Tax increases for the purpose of the MTFP forecast.

Inflation

4.6 As noted in the Revenue budget report, Consumer Price Index inflation is currently running at 3.7% per annum. It is possible that this level of increase will apply for the foreseeable future.

4.7 Whilst it is unlikely that there will any significant pay increases for the next two years, it is uncertain as to whether such a pay policy will continue beyond this period. As such, it is prudent to assume that a pay award will apply in 2013/14 and the subsequent year.

4.8 As a working assumption , the inflation figures in appendix 1 assume the following:

	Pay	Prices / income
2012/13	No increase	+3%
2013/14	+3%	+3%
2014/15	+3%	+3%

4.9 The financial implications of the above assumptions are detailed below and are reflected in appendix 1. Given the critical importance of the assumption made about inflation, the implications of higher and lower assumptions are as follows:

Cost of inflation

	2012/13	2013/14	2014/15
	£000	£000	£000
1%	1,000	3,138	5,275
2%	2,000	6,275	10,551
3%	3,000	9,413	15,826
4%	4,000	12,551	21,101
5%	5,000	15,688	26,377

Note: all figures are relative to the 2011/12 budget

Pension Contributions

4.10 Employer contribution rates will be held at the current level in 2011/12. There will be a stepped increase in rates in 2012/13 and 2013/14 as follows:

	Employers Contribution rate %
2011/12	20.5
2012/13	22.1
2013/14	22.4

Rates in the medium to long term will be determined by a number of interrelated factors in particular:

- potential structural changes to the Local Government Pension Scheme
- the balance of future contributions between employees and employers
- the UK economy including performance of the stock market

The increase in 2014/15 could be greater or less than the figure indicated.

Waste Disposal

4.11 As noted in paragraph 3.10, the cost of disposal of residual waste and the regime of financial penalties is a major issue for the Council. Whilst increased recycling and efficiency initiatives will reduce future costs, there will be increased costs arising from higher Landfill Tax levies to be applied in future years. There are also issues to be addressed in relation to the Tir John landfill site as detailed in the Capital Budget report elsewhere on the agenda. The figures detailed in appendix 1 represent the best estimate of a number of interrelated costs and savings. This assessment assumes that there will be no reduction in Assembly waste grants.

eGovernment Programme

4.12 The Medium Term Financial Plan reported to Council on 22nd February 2010 highlighted that monies borrowed to fund the eGovernment Programme will be fully repaid in accordance with paragraph 5.1.3 of the contract award report approved by Cabinet on 1st December 2005.

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

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

This will achieve a full repayment of all sums borrowed to finance the eGovernment programme at the end of the contract with Capgemini.

ISIS Upgrade

4.13 Similarly, the report highlighted that supplier support for the ISIS system will cease in 2013. This will require an ISIS upgrade at a forecast cost of £2.3m. Options to reduce this forecast cost are currently being investigated.

Demographic and economic changes

4.14 There will be increased demand for services as younger and older person numbers increase. Whilst this cost can not be precisely estimated it is prudent to provide an indicative amount of £500,000 per annum.

There may also be a cost in addressing / supporting economic inactivity.

Levies

4.15 The only significant levy relates to the Mid and West Wales Fire Authority. It is assumed that future increases will be limited to the annual change in RSG.

Schools Protection

4.16 The implications of the Assembly's Education Funding Guarantee in future years was highlighted in the budget report considered by Cabinet on 16th December 2010.

Excluding a pupil adjustment, the implication for the delegated budget in each year was detailed as follows:

	£m
2011/12	-0.4
2012/13	+1.5
2013/14	+3.9
2014/15 *	+3.9

In addition to the above, it was noted that the Education Funding Guarantee provides for a pupil number adjustment to be made in each year. If such an adjustment was made in addition to the above reduction, the implication for the Schools Delegated budget in each year is as follows:

	£m
2011/12	-0.8
2012/13	+0.9
2013/14	+3.1
2014/15 *	+3.1

** no figures provided by the Assembly and 2013/14 figure assumed for this forecast*

The spending forecasts in appendix 1 assume that the latter figures will apply i.e an Education Funding Guarantee which takes account of Assembly funding increases and a pupil number adjustment.

The Revenue Budget report elsewhere on the agenda proposes that the Education Funding Guarantee will be exceeded in 2011/12 on a one-off basis. Clearly it is not possible to commit to any additional protection in future years at this time.

More generally, the above figures:

- can only be regarded as indicative at this time and will be dependent on future Assembly settlements and the Council's overall financial position and

- will be impacted by any future changes in the Education Delegated and Non-Delegated budget split

Social Care Protection

4.17 Similarly, the December Cabinet report highlighted the Minister's comments about protecting the vulnerable. It is the view of officers that the costs and savings forecasts in this report are consistent with his desire to protect this service.

Reductions to 2010/11 budget levels

4.18 The forecast adjustments to Child & Family Services and planning income budgets are consistent with current service and financial planning assumptions.

Sensitivity Analysis

4.19 The shortfalls highlighted in appendix 1 reflect a range of assumptions as detailed above. Changes to key assumptions – in particular assumptions about Council Tax, inflation and Assembly support – will significantly change the forecasts detailed in appendix 1.

In addition, a forecast of this nature can not possibly take account of all possible scenarios as illustrated by the following three examples:

Example 1

A 1% overspend in Council service budgets would amount to £3.3m
A 1% increase in interest earned on Council investments would earn £0.5m
A 1% overspend in Child & Family Services would amount to £0.3m

5. Potential Savings Options

5.1 Options have been considered under four broad headings:

Future Effects of 2011/12 Savings

These savings relate to 2011/12 budget savings proposals and include the full year effect of service efficiencies; management/operational cost reductions and other listed items.

Management, Supervision and Administrative Reductions

Each Directorate has a further target to achieve a £500,000 savings reduction in each of the three years covered by the MTFP. This is a very challenging target and is additional to the targets which each Directorate has achieved in 2010/11 and will achieve in 2011/12.

Specific Items

The shortfalls highlighted in appendix 1 can only be resolved by making difficult decisions. The items listed under this heading are examples of choices which will need to be considered. There is a long lead in time to achieving many of these savings and early decisions will be needed.

Other Savings Targets

These are effectively the significant projects to be adopted to resolve the forecast shortfalls. The balancing figure in each year is a target saving to be achieved by the ongoing workforce programme. These targets will only be achieved by a significant input of member and officer resources. These items will effectively form the basis of the new MTFP Action Plan going forward.

5.2 The savings options are detailed in appendix 2.

6. Strategies and Plans for Achieving Future Savings

6.1 The MTFP approved by Council in February 2010 included an Action Plan for achieving future savings. This plan comprised 102 items and included a range of potential small and strategic savings. The Action Plan has been monitored throughout the year and regular updates have been provided to Cabinet. The 3rd quarter financial monitoring report considered by Cabinet on 17th February 2011 details comments on each item in the Action plan. The vast majority of items have now been concluded and savings have been achieved or have been included in the 2011/12 savings proposals.

6.2 As stated above, the MTFP contains many challenging targets and the new Business Improvement Board Action Plan will address these items going forward.

7. Risks and Uncertainties

7.1 The projected shortfalls detailed in appendix 1 are based on a number of assumptions. As noted above, small changes in the key assumptions will make big differences to the forecast of shortfalls in future years.

7.2 The Revenue and Capital budget reports list a significant number of risks and uncertainties in 2011/12 and future years. There is a risk that the forecasts detailed in appendix 1 do not include sufficient provision for unavoidable spending increases in a number of areas.

8. Legal Implications

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

9. Recommendation

9.1 The Medium Term Financial Plan 2012/13 – 2014/15 be approved as a basis for future service and financial planning.

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Background papers : None

MEDIUM TERM FINANCIAL PLAN - FORECAST SHORTFALLS 2012/13 - 2014/15

	2012/13 £000	2013/14 £000	2014/15 £000
INCREASED SPENDING REQUIREMENT			
INFLATION	3,000	9,413	15,826
NET ADDITIONAL REQUIREMENTS			
Pension contributions	1,695	2,328	3,000
Waste disposal	500	900	1,200
eGovernment programme - special repayments		4,000	4,300
ISIS upgrade	2,300		
Demographic changes	500	1,000	1,500
Less reductions to 2010/11 budget levels:			
- Child & Family Services	-1,500	-3,000	-3,000
- Planning income	-200	-400	-400
SCHOOLS PROTECTION	1,713	3,945	3,945
	8,008	18,186	26,371
less: **INCREASED REVENUE SUPPORT GRANT**	-1,884	-6,027	-6,027
TOTAL FORECAST SHORTFALL	**6,124**	**12,159**	**20,344**

Appendix 1

Appendix 2

MEDIUM TERM FINANCIAL PLAN - SAVINGS OPTIONS 2012/13 - 2014/15

	2012/13 £000	2013/14 £000	2014/15 £000
FUTURE EFFECTS OF 2011/12 SAVINGS			
Service efficiencies and and cost reductions	774	1,875	2,075
Phased removal of subsidy for music service including increased charges	204	204	204
Review car park management arrangements	100	100	100
Transition of non-delegated Education services to minimum levels	200	400	400
Remodel the respite service for adults	150	150	150
SUB TOTAL - FUTURE EFFECTS OF 2011/12 SAVINGS	**1,428**	**2,729**	**2,929**
MANAGEMENT , SUPERVISION & ADMINISTRATION REDUCTIONS	***2,500***	***5,000***	***7,500***
SPECIFIC ITEMS			
Remove discretionary rate relief		192	192
Reduce discretionary grant funding (Third Sector)	100	200	200
Reduce bus subsidies	100	200	200
Reduce Special Events	100	200	200
Transfer facilities to a trust	200	450	450
Reduce LC subsidy	200	300	400
Remove subsidies to Leisure Facilities including Bowls & St.Helens	20	70	160
Transfer community centres	125	250	250
Review public conveniencies	225	450	450
Establish a regional fleet maintenance unit	125	125	125
Reduce accommodation costs			280
Review all subscriptions	42	42	42
Review training costs	200	250	340
Consolidate marketing and communications into a single unit	100	100	100
SUB TOTAL - SPECIFIC ITEMS	***1,537***	***2,829***	***3,389***

MEDIUM TERM FINANCIAL PLAN - SAVINGS OPTIONS 2012/13 - 2014/15

	2012/13 £000	2013/14 £000	2014/15 £000
OTHER SAVINGS TARGETS			
Future Model of Service Delivery for Adult Social Care		500	1,000
Collaborative and regional working	100	500	1,500
Workforce programme	559	601	4,026
SUB TOTAL - OTHER SAVINGS TARGETS	***659***	***1,601***	***6,526***
TOTAL POTENTIAL SAVINGS	**6,124**	**12,159**	**20,344**

Appendix 3

Proposal for increasing the proportion of the overall Education budget delegated to schools.

Background
There is currently a national review of the way Education is delivered in Wales which will inevitably lead to different approaches to service delivery locally, regionally and nationally given the drive to continually and significantly improve standards and move funding to 'frontline services'. This agenda is set against a backcloth of reductions in available funding and the need to make efficiencies and savings.

There is a clear expectation nationally that delegation rates will need to rise over the coming years.

Increased delegation - potential implications and considerations
This has significant potential implications and considerations locally particularly:

- Increased levels of delegation must involve transferring both funding and responsibilities as it is not possible for schools to have additional funding without taking on the related responsibilities
- If the current budget for a new area of responsibility is delegated to schools it becomes part of the delegated schools budget and is then protected in the same way as the rest of this budget through the *Education Funding Guarantee*.
- Some significant budgets and responsibilities which are included within the total Schools Budget can not be delegated and others could only be delegated on a notional basis.
- Any true additional delegation of funding and responsibilities, especially within the context of a significant reduction in the total Council budget, must add value to the education provision delivered. For this to be the case the increased delegation must be an integral part of a coherent and joined up education strategy rather than any mechanistic delivery of a delegation target.
- The most valuable aspect of additional delegation to schools is that it should encourage greater ownership of issues by schools. The fundamental test is whether the additional delegation of an area of budget and responsibilities offers the potential to free up resources for front line provision in schools.
- There must also be clarity regarding the responsibilities that are being transferred to schools and the responsibilities that remain with the Authority. With increased delegation, the local authority role will change to one of monitoring the delivery of the responsibilities. The Local Authority will therefore need to redirect some of its own resources to ensure this monitoring occurs.
- Whilst funding and responsibilities can be delegated to schools, in some areas the ultimate responsibility will remain with the Authority should a school fail to meet their responsibility. Where necessary, the Local Authority will have to intervene to safeguard its position

Proposals and timescale

The intention is that levels of delegation will increase over the next few years to meet the national requirement, with delegation of the current dedicated support for pupils with special education needs in mainstream schools forming the basis of meeting this requirement.

The current delegation rate based on the 2010/11 budget is 73.6%. The current requirement is to delegate at least 80% of the available Education funding within 2 years and 85% of the available Education funding within 4 years.

The proposal is that more flexible arrangements will be made to meet identified SEN pupil needs during 2011/12 and these will be set out for schools and governing bodies. This will be consistent with ensuring an effective and efficient use of resources during 2011/12. This will help underpin the move to full delegation of the SEN 121 budget from April 2012.

Consultation

A wide ranging consultation is currently occurring with the School (Budget) Forum, headteachers and governing bodies so that it is quite clear what responsibilities are being transferred to schools and the proposed formula funding arrangements.

Capital Budget & Programme 2011/12 – 2014/15

Report of the Section 151 Officer

Extraordinary Council – 28th February 2011

CAPITAL BUDGET & PROGRAMME 2011/12 – 2014/15

Purpose:	This report proposes a capital budget for 2011/12 - 2014/15
Policy framework:	None
Reason for decision:	To agree a revised budget for 2010/11 and a budget for 2011/12 – 2014/15
Consultation:	Cabinet Members & Corporate Management Team

1. Introduction

1.1 This report details:

- Revised capital expenditure and financing proposals in 2010/11
- Capital expenditure and financing proposals in 2011/12 – 2014/15

1.2 Capital spending and funding proposals in relation to the Housing Revenue Account (HRA) are detailed in a separate report to be considered by Council on 28th February 2011.

1.3 The budget proposals are further detailed in appendices to this report as follows:

Appendix A Summary of capital expenditure and financing 2010/11 – 2014/15
Appendix B Material changes to the original 2010/11 programme
Appendix C A detailed breakdown of the capital budget

2. Capital Budget 2010/11 – 2014/15

2010/11

2.1 Spending in the current year will be £54.866m, an increase of £17.418m over the original estimate of £37.448m.

This increase is mainly due to the addition of grant funded schemes after Council approved the capital budget in February 2010.

Material changes to the 2010/11 budget are summarised in appendix B.

2011/12 – 2014/15

2.2 The main points in relation to the capital budget proposals are as follows:

Guildhall Refurbishment

2.3 The approved scheme is progressing as planned and the expenditure profile has been updated. The revised scheme cost is £22.5m and completion is expected in 2013/14. Importantly, the budget no longer contains any provision to repair the Law Courts. It is anticipated that the Lord Chancellor's Department will agree to meet the £3m cost of completing these works.

Swansea Bus Station

2.4 The capital budget provides for the building costs of the Swansea Bus Station. All costs to date have been financed by European and Assembly Grants. As previously identified, there are potential additional costs which may need to be financed in future years. Whilst there is no budget provision for these costs, SWWITCH has agreed to prioritise any request to provide Regional Transport Grant in future years.

Tir John

2.5 The current capital budget only provides for limited expenditure on cell 15 and capping works to the former Cells 4 to 14. Options for the future of the whole site are under active consideration but broadly fall into two categories - either further develop the remaining Cells 16 and 17 for landfill or close and remediate the site completely after Cell 15 is full. Both options will require significant capital investment.

Whilst decisions are yet to be made regarding the long term future of the site, it is essential to make further capital budget provision regardless of the future option to be adopted. Waste has been landfilled at the site for more than 30 years. If the site is closed, all completed and active cells will need to be capped and monitored in accordance with the requirements of the Environment Agency. As such, it is proposed that a further £5m be added to the capital budget to provide for the minimum works required to close the site.

The actual option to be adopted will be subject to further evaluation and a report to Cabinet. No new expenditure will be incurred until the business case for each option is completed and evaluated.

Due to the adoption of an alternative option for processing garden waste, the extra Tir John budget requirement will be partly offset by an existing waste composting facility budget of £1.2m which is no longer required i.e a net additional requirement of £3.8m.

Quality in Education 2020 (QEd2020)

2.6 As previously agreed, QEd2020 remains the Council's top capital budget priority and available resources will be used to progress further schemes wherever possible.

2.7 The Council's ability to commit further schemes is highly dependent on Assembly capital funding and the identification of Council match funding. As such, the Council has submitted several funding applications to the Assembly in line with its agreed QEd2020 funding strategy.

2.8 To date, the Assembly has approved grant applications in relation to Cefn Hengoed and Morriston Comprehensive schools. This funding will allow significant remodelling and improvement works to be completed at these schools. Assembly Grant will fund 80% of the cost of works at Cefn Hengoed and 70% in the case of

Morriston. The Council is required to fund the balance of £2m and £6.6m respectively from its own resources.

2.9 In order to make further applications to the Assembly for specific capital funding, the Council will need to be in a position to commit contributions from its own resources. Given the pressures on the Council's capital budget and the limited options for financing new spending, it is clear that such contributions can only be derived from asset disposals.

2.10 General capital receipts are also required to support the overall capital budget. As noted in paragraph 3 below, a challenging target will need to be set for such receipts in future years in order to achieve a balanced capital budget. As such, it is almost certain that general capital receipts will not be available to support specific QEd2020 funding applications in the short to medium term.

2.11 In order to make progress, all Education sites have been reviewed and a number of potential disposals have been identified at the following schools:

Phase 1
Llanmorlais Primary
Morriston Comprehensive
Arfryn Primary
Knelston Primary
Gors Primary

Phase 2
Clwyd Primary site
Clase Primary
Parklands Primary
Olchfa Comprehensive

Phase 3
YGG Gellionen Primary
Tre Uchaf Primary
Penyrheol Comprehensive
Pontardulais Primary

The above represents either closed schools or **excess** land surplus to Educational requirements at the listed sites. These disposals will not have a significant impact on the facilities available at the affected schools.

All sales proceeds will be applied to the QEd2020 programme and will be used to support existing and future funding applications.

2.12 The estimated disposal value of the above sites is approximately £12m. However, achievement of this amount is dependent on all sales proceeding as planned and the forecast values being achieved. Clearly this may not be the case in all instances.

2.13 As stated above, 70% of the cost of the Morriston Comprehensive Scheme will be funded by Assembly Grant. This leaves a funding requirement of £6.6m to be met by the Council. If the above disposal values are achieved, a balance of over £5m will be available to resource new QEd2020 funding applications.

2.14 Whilst it is not possible to add any further specific QEd2020 schemes to the capital budget at this time, it is hoped that the Council will be invited to submit specific Outline Business Cases in respect of the highest priority investment needs such as the Cwmbwrla / Manselton scheme.

City Centre Redevelopment

2.15 The Council has accepted grants and contributions of £32m to enable several significant schemes to proceed.

Schemes completed
City centre core public realm works phase 1
Waterfront public realm works phase 1

Schemes to be completed
Lower Oxford street public realm works
Waterfront public realm works phases 2 and 3
Boulevard feasibility and advance works
Oystermouth Road / Westway junction improvements
River bridges design and works
Main Boulevard design

Disabled Facilities Grants & Improvement Grants

2.16 Budget provision has been held at £5.2m per annum.

Felindre Strategic Business Park

2.17 The Council has accepted grants and contributions of £10m to undertake further major infrastructure development of the Felindre Strategic Business Park.

Capital Maintenance (Property and Infrastructure)

2.18 Property and infrastructure maintenance budgets are held at current levels. Members will be aware that published Asset Management Plans have previously highlighted significant maintenance backlogs. The current assessment is £300m for properties and £131m for highways. Annual budget provision remains low relative to these figures.

New Depot

2.19 Proposals are being developed for a new Depot to replace existing facilities at Pipehouse Wharf. Subject to Cabinet approving a business case, expenditure of £1.6m will be financed by the sale of the existing site.

Glyn Vivian Art Gallery Refurbishment Works

2.20 A revised scheme has been developed in the light of a reduced Assembly funding offer. This scheme will cost £6m and will be financed by Assembly Grant of £5.5m and the Council's own resources of £0.5m.

Contingency Fund

2.21 As in previous years, a contingency budget has been provided in each year to meet unforeseen costs, risks and uncertainties.

Other Grant Funded Schemes

2.22 Other significant schemes agreed in 2010/11 were:

- School Building Improvement Grant schemes annual allocation

- Hafod renewal area grant annual allocation
- Oystermouth Castle restoration
- Vetch Field demolition
- Swansea Castle feasibility and enabling works
- Watersports Centre of Excellence
- Local Road Safety schemes
- Safe Routes in Communities schemes

3. Financing of Capital Budget 2010/11 – 2014/15

3.1 The capital budget proposals will be funded by:

a) Welsh Assembly Government support -General Capital Grant, specific capital grants and supported borrowing approvals.

b) Specific grants and contributions provided by other bodies.

c) The Council's own resources -unsupported borrowing and general capital receipts.

d) Education land sales to fund QEd2020 schemes.

There is a forecast shortfall in resources of £7m over the four year capital budget. This shortfall will need to be resolved by reducing spending plans or increasing resources. Subject to the risks identified in paragraph 4, the current assumption is that resources will be increased.

Given the fact that borrowing is effectively constrained, the only option is to achieve additional capital receipts. As such, the overall funding proposals provide for an additional capital receipts target of £7m.

3.2 The following points must be noted:

a) General Capital Grant has been subject to a 19.7% reduction in 2011/12. It is not known at this time if further reductions will apply in future years. As such, it is assumed that the 2011/12 level of funding will continue in the period 2012/13 – 2014/15. This may not be the case.

b) A number of specific grants have not been announced at this time, in particular:

- Regional Transport Plan Grant
- Renewal Area Grant
- Local Road Safety Grant
- Safe Route in Communities Grant
- SBIG Annual Allocation
- Early Years and Flying Start Grant

c) There is no planned increase in the level of unsupported borrowing i.e the previously agreed figure of £79.823m will not be exceeded.

d) The forecast of general capital receipts has been updated to reflect current timescales for achieving disposals and forecast values. As stated above, the capital receipts forecast has been increased by £7m in order to resolve the overall funding shortfall. Proposals for achieving this challenging target will need to be developed over the coming months.

e) As stated in paragraph 2.12, there is an addition £12m target for school disposals.

4. Risks

4.1 There are significant risks which may require a future revision of the four year capital budget. In particular:

- a further reduction in Assembly funding from 2012/13 onwards
- additional capital costs arising from future waste disposal arrangements
- urgent capital maintenance requirements
- unforeseen costs e.g. failure of retaining walls
- a failure to achieve the general capital receipts and Education land sale targets.

5. Legal implications

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

6. Prudential Code

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

6.2 A further report on the agenda will detail what is required under the requirement of the Code and set out in detail Prudential Borrowing Indicators for 2011/12 and subsequent years.

7. Recommendation

The revised budget for 2010/11 and budget 2011/12 – 2014/15 be approved.

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

SUMMARY OF CAPITAL BUDGET AND FINANCING 2010/11 - 2014/15

PORTFOLIO	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Business Improvement and Efficiency	594				
Finance	808	1,500	1,500	1,500	1,000
Education	4,644	14,887	9,262	6,348	5,404
Community Regeneration	262	14			
Culture, Recreation & Tourism	3,320	2,577	12	26	
Economic Regeneraion & Planning	7,947	3,365	338	15	
Environment	18,992	6,423	4,602	5,533	4,652
Social Services	326				
Housing - General Fund	7,981	5,200	5,200	5,200	5,200
- Corporate Building Services	9,992	8,086	8,617	5,612	4,005
TOTAL	**54,866**	**42,052**	**29,531**	**24,234**	**20,261**

FINANCED BY:	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Loans					
Supported Borrowing	11,003	8,141	8,141	8,141	8,141
Unsupported Borrowing		7,956	4,049		
Grants					
General Capital Grant	3,668	3,660	3,660	3,660	3,660
Other Welsh Assembly Grants	15,522	14,259	6,434	5,377	
European Grants (including Convergence)	7,660	2,542	332	7	
Other Grants	626	486	12	26	
Contributions	1,055	160			
General Capital Receipts	13,576	3,198	6,900	3,411	1,477
Education Land Sales		1,409		3,608	6,983
Use of reserves	1,756	241	3	4	
TOTAL	**54,866**	**42,052**	**29,531**	**24,234**	**20,261**

Appendix A

Appendix B

MATERIAL CHANGES TO THE 2010/11 CAPITAL BUDGET

Scheme	Source Of Funding	2010/11 Change £'000
Education		
Morriston Comprehensive Refurbishment	Existing Budget	380
Early Years Grant	Grant	219
Flying Start Capital Grant	Grant	369
Housing (Corporate Building Services)		
Bonymaen Community Centre Rebuilding	Insurance	156
Guildhall to Civic Centre Accommodation - Relocation Works	Existing Budget	60
Community Regeneration		
Youth Service Small Capital Schemes	Grant	101
Culture, Recreation & Tourism		
Cwmdonkin Park Study	Grant	18
Oystermouth Castle Refurbishment	Grant	1,697
Parks and Play Facility Improvements	Grant	216
Parks and Play Facility Improvements	Contribution	28
Swansea Adizone Development	Grant	125
River Tawe Pontoons	Grant	20
Restoration of the Olga	Grant	191
St Helens Watersports Centre of Excellence	Grant	230
Knab Rock Improvements	Grant	60
Economic and Strategic Development		
Swansea Castle Redevelopment	Grant	220
Waterfront Walkway Phase 2 & 3 Public Realm Work	Grant	460
Lower Oxford Street Public Realm Work	Grant	600
Boulevard - Preliminary Works	Grant	810
Boulevard - Leisure Centre to Strand Design Work	Grant	263
Vetchfield Stadium Demolition	Grant	500
Boulevard - Tawe Bridges Design	Grant	230
Oystermouth Road/Westway Junction Improvements	Grant	600
Felindre Business Park	Grant	2,680
Environment		
Regional Transport Programme Schemes	Grant	344
Swansea Bus Station	Grant	4,051
Local Road Safety Schemes	Grant	495
Local Road Maintenance Grant	Grant	279
Safer Routes In Communities	Grant	380
Delayed Spending From 2009/10 - All Portfolios	Various	13,550
Delayed Spending Into 2011/12 - All Portfolios	Various	-11,962
Other Minor Changes	Various	48
TOTAL MATERIAL CHANGES		**17,418**

CAPITAL BUDGET 2010/11 - 2014/15

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
BUSINESS IMPROVEMENT AND EFFICIENCY					
New library/Civic Centre Scheme	208				
ISIS Payroll Development Scheme	386				
TOTAL	**594**				
FINANCE					
Corporate Contingency Fund	808	1,500	1,500	1,500	1,000
TOTAL	**808**	**1,500**	**1,500**	**1,500**	**1,000**
EDUCATION					
Education General Schemes	29				
Primary Schools Schemes	1,254	400			
Secondary Schools Schemes	131				
Cefn Hengoed Refurbishment	879	6,991	1,500		
Morriston Comprehensive Refurbishment	380	7,496	7,762	6,348	
Future QEd2020 Schemes					5,404
Special Education Schemes	337				
School Building Improvement Grant Schemes	1,634				
TOTAL	**4,644**	**14,887**	**9,262**	**6,348**	**5,404**
COMMUNITY REGENERATION					
Youth Services Small Capital Schemes	174	14			
Community Regeneration Programme	73				
Other Community Building Schemes	15				
TOTAL	**262**	**14**			

Appendix C

CAPITAL BUDGET 2010/11 - 2014/15

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
CULTURE, RECREATION & TOURISM					
Glyn Vivian Refurbishment (match funding)	434				
Restoration of the Olga	200				
Library Service Schemes	29				
Liberty Stadium (retentions)	410				
Swansea Leisure Centre (retentions)	593				
Sports Centres Schemes	56				
Oystermouth Castle Restoration	681	1,463			
Parks/Playing Field Schemes	567	34	12	26	
Foreshore Schemes	350	1,080			
TOTAL	**3,320**	**2,577**	**12**	**26**	
ECONOMIC REGENERATION & PLANNING					
Waterfront Walkway Phase 1- Public Realm Enhancement	225	6	6	8	
Waterfront Walkway Phases 2 & 3 - Public Realm Enhancement	600	700			
Boulevard Preliminary Works	810				
Boulevard Design - Leisure Centre to Strand Phase	263	154	27	7	
Lower Oxford Street Public Realm Enhancements	600	1,600			
Boulevard Design - River Bridges	230	15	5		
Oystermouth Road/Westway Junction Improvements	650				
City Centre Redevelopment Schemes	505				
Vetch Field Stadium Demolition	500	200			
General Redevelopment Schemes	71	190			
Swansea Vale Schemes	523				
Felindre Business Park	2,680	500	300		
Environmental Services Schemes	77				
Market Refurbishment	213				
TOTAL	**7,947**	**3,365**	**338**	**15**	

CAPITAL BUDGET 2010/11 - 2014/15

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
ENVIRONMENT					
Regional Transport Programme Schemes	344				
Swansea Bus Station	8,182	400		931	
Safer Routes In Communities Schemes	380				
Highways and Other Infrastructure capital maintenance allocation	2,980	3,280	3,280	3,280	3,280
Members Highways Improvements allocation	65	72	72	72	72
Structural Maintenance Roads Schemes	128				
Slip Bridge Refurbishment	139				
Trewyddfa Road Slip	250				
Bridges & Retaining Wall Schemes	967	813			
Street Lighting Schemes	382				
Road Safety/Traffic Schemes	467				
Other Highway Schemes	257				
Bus Facility Schemes	46				
Coast Protection/Land Drainage Schemes	64	98			
Cemeteries/Crematorium	74	160			
Pollution Control	12				
Tir John Development	3,980		1,250	1,250	1,300
Foreshore & Marina Schemes	255				
New Depot	20	1,600			
TOTAL	**18,992**	**6,423**	**4,602**	**5,533**	**4,652**
SOCIAL SERVICES					
Children and Family Services Schemes	8				
Adult Services Schemes	318				
TOTAL	**326**				
HOUSING (GENERAL FUND)					
Disabled Facilities Grants/Improvement Grants	6,081	5,200	5,200	5,200	5,200
Hafod Renewal Area Schemes	1,900				
TOTAL	**7,981**	**5,200**	**5,200**	**5,200**	**5,200**

CAPITAL BUDGET 2010/11 - 2014/15

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
CORPORATE BUILDING SERVICES					
Building Capital Maintenance Schemes	5,873	3,758	3,500	4,000	4,000
Guildhall Refurbishment - Phase 2 Part 1	20				
Guildhall Refurbishment - Phase 3 Part 2	2,747				
Guildhall Refurbishment - Future Phases	748	4,113	5,072	1,612	5
Feasibility Study Penllergaer	48				
Civic Centre/Guildhall accomodation move costs	331	125			
Guildhall to Penllergaer Relocation Costs	12				
Guildhall Relocation Management Costs	111	90	45		
Guildhall/Civic Centre Accommodation Strategy - Relocation Works	102				
TOTAL	**9,992**	**8,086**	**8,617**	**5,612**	**4,005**

Revenue Budget 2011/12

Report of the Section 151 Officer

Extraordinary Council – 28th February 2011

REVENUE BUDGET 2011/12

Purpose:	This report proposes a Revenue Budget and Council Tax levy for 2011/12
Policy framework:	None
Reason for decision:	To agree a Revenue Budget and Council Tax levy for 2011/12
Consultation:	Cabinet Members & Corporate Management Team

1. Introduction

1.1 This report details:

- Financial monitoring in 2010/11
- The Local Government Finance Settlement 2011/12
- Budget proposals 2011/12
- Risks and uncertainties
- Reserves and contingency requirements
- The overall Budget Requirement and Council Tax 2011/12

1.2 The financial assessment in relation to 2012/13 – 2014/15 is contained in the Medium Term Financial Plan report elsewhere on the agenda.

2. Financial Monitoring 2010/11

2.1 Cabinet considered an updated assessment of forecast spending in 2010/11 on 17th February 2011.

2.2 The report highlighted a forecast overspending of service budgets of £5,501,000. This is mainly due to a £4,944,000 overspending in the Social Services budget.

The overspending will be financed on a one-off basis by the use of Contingency Fund and several offsetting savings.

The Cabinet report highlighted the need to provide additional funding for Child & Family Services on a time limited basis.

Members will be aware that there is a Child & Family Improvement Plan and a linked financial recovery plan.

3. The Local Government Finance Settlement 2011/12

3.1 The Minister for Social Justice & Local Government announced the Final Settlement on 2nd February 2011.

3.2 The Settlement provides for a 1.5% decrease in Assembly Grant which represents no change from the Provisional Settlement reported to Cabinet on 16th December 2010.

4. Budget Proposals 2011/12

Overview

4.1 The 2011/12 budget process commenced immediately following the agreement of the 2010/11 budget.

4.2 The Medium Term Financial Plan considered by Council on 22nd February 2010 highlighted a forecast £19.7m shortfall in 2011/12. The updated budget forecast for 2011/12 was set out in a report to Cabinet on 16th December 2010. The report highlighted a forecast shortfall of £16.4m in 2011/12 i.e. an improvement of £3.3m compared to the position forecast in February 2010.

4.3 This forecast shortfall has been further reviewed and reduced to £15.020m as detailed in table 1 below.

The forecast shortfall reflects the following assessments and assumptions.

Additional Spending Needs

4.4 The budget proposals provide for additional spending needs of £5.029m as follows:

Child & family Services

A significant part of the 2010/11 overspend relates to Child & Family Services and reflects the placement costs of 130 additional children and young people over and above current budget provision . There are also a number of related overspends.

The approach in respect of looked after children must ensure that the local authority is able to meet its duties and responsibilities as required by legislation and statutory guidance. Improved practice has resulted in an increase in the total number of looked after children and this is particularly the case in relation to younger children.

It is important to note that the financial implications for the looked after children population reflects both the total number of children and young people that require placements and the individual costs of these placements. There is therefore, a need to continue the overall approach which seeks to both reduce the total number of looked after children and the cost for placements.

The financial recovery plan identifies a number of developments which should result in improvements with regard to the effectiveness and efficiency of support available to looked after children. This should result in both an overall improvement in the financial situation and a decrease in the number of looked after children.

Whilst the work undertaken has addressed the key activities, the financial position has not yet improved. It is the case that the rise in the number of looked after children in recent months has been relatively small but nevertheless the numbers have increased. A further financial pressure has been the continued use of agency staff. This is both in terms of the social work teams and other support, e.g. supervised contact.

As stated above, the current projected overspend equates to the placement costs of some 130 children and young people together with other related overspends. It is anticipated that both placements and the current £5m overspend will reduce in future years as follows:

2011/12 – an overspend of £3m
2012/13 – an overspend of £1.5m
2013/14 – no overspend

As such, additional budget provision of £3m is needed in 2011/12.

First Steps Improvement Package
£808,000 has been provided in the settlement to facilitate consistency in charging for non-residential social care.

National Insurance Increase
National Insurance contributions will increase from 6th April 2011. This will result in an average increase in employers contributions of 0.5% i.e. an additional cost of £686,000 to Non-Delegated General Fund budgets.

Planning fee shortfall
There is a forecast shortfall of income of £400,000 in 2011/12 due to continuing market conditions.

Inflation

4.5 Whilst there is a general public sector pay freeze for two years, general inflation is significantly above the government target of 2% per annum and this is likely to be the case for the foreseeable future. The Consumer Price Index increased by 3.7% in the year to 31st December 2010.

4.6 The forecast budget position contained in the December report to Cabinet contained a general provision for inflation of £4.1m. This reflected the estimated cost of inflation based on an average increase of 3% in non-pay budgets.

4.7 This assumption has been reviewed and a distinction has been made between:

a) Known / contracted inflationary increases to be subject to explicit budget provision and

b) Other potential increases to be managed in year or be subject to Contingency Fund financing.

The main known increase relates to energy prices which will increase by 15% - 25% from April 2011. Other known increases relate to:

- contracts which provide for annual increases linked to the Retail Prices Index
- commodity increases (e.g. food)
- fuel price increases

Whilst all services will consider mitigating and offsetting actions in managing their agreed budgets, it is prudent to set aside a lump sum allowance for known/contracted inflationary increases of £2m. This sum will be allocated during the year on an evidenced basis.

TABLE 1

Shortfall and proposed funding	£m
Additional spending needs (see table 2)	5.029
Inflation	2.000
Schools protection	0.421
Reduced Assembly Grant	4.579
General Reserves not available in 2011/12	3.529
Other items	0.172
Offset by:	
Capital Financing Charges	-0.710
Shortfall	15.020
Funded by:	
Additional Council Tax income	3.670
Savings proposals	11.350
Proposed funding	15.020

TABLE 2

Additional spending needs	£m
Child & Family Services	3.000
First Steps Improvement Package	0.808
National Insurance increase	0.686
Planning fee shortfall	0.400
Other items	0.135
Total	5.029

4.8 Any other potential inflationary increase – including any pay award to lower paid staff – will need to be financed from the Contingency Fund.

Schools Protection

4.9 The report to Cabinet on 16th December 2010 noted that compliance with the Assembly's Education Funding Guarantee would result in a cash reduction of 0.33% in the delegated budget together with a falling rolls adjustment. If implemented, this will result in a £850,000 reduction in the delegated budget.

4.10 The implications of making such a reduction have been carefully considered and it is proposed that, on a one-off basis in 2011/12 :

- No reduction of £850,000 will be made as described above
- A net addition of £421,000 be made to the delegated budget

This change represents a significant change from the consultation proposals and means that the delegated budget settlement will be £1,271,000 higher than the Education Funding Guarantee announced by the Assembly.

4.11 This proposal takes account of additional unavoidable costs which schools will need to meet notwithstanding the fact that the Assembly has not provided funding for the teachers pay award, inflation and the National Insurance increase in the Local Government Finance Settlement.

4.12 The proposed addition of £421,000 is calculated as follows:

TABLE 3

Schools protection	£000
Teachers Pay Award - full year effect	824
Increased energy costs	339
National Insurance increase	547
	1,710
less:	
Funding guarantee deductions:	
- 0.33% reduction	-386
- Reduced pupil numbers	-464
Savings arising from closed schools	-439
Net addition to delegated budget	421

4.13 The above represents a significantly better outcome than proposed in the December Cabinet report and also a better outcome compared to most other Council services including the non-delegated Education budget.

4.14 During 2009/10 and 2010/11, part of the Early Retirement / Redundancy non-delegated budget was specifically targeted to schools in accordance with an approach developed by the Corporate Director (Education). The remainder of this budget was used to fund redundancies and early retirements in schools.

With effect from 2011/12, it is intended that £400,000 of this budget be used in each of the following 3 years (2011 to 2014) to specifically target improvements in literacy standards – in particular oracy in the early years; 7 to 11 year old pupils and also across the curriculum for secondary age pupils.

The remainder of the Early Retirement / Redundancy non-delegated budget will be used to fund the full year costs of pension payments arising in 2010/11 and also the part-year pension effects and lump sum payments for the redundancies and early retirements in schools in 2011/12.

General Assembly Grant

4.15 General Assembly Grant will decrease by £3.630m in 2011/12. However, due to the transfer of specific grant funding, the real reduction is £4.579m.

General Reserves

4.16 The approved 2010/11 budget provides for a one-off use of General Reserves of £3.529m in 2010/11. This use of reserves can not be repeated in 2011/12.

Capital Financing Charges

4.17 The above increases will be partly offset by reduced capital financing charges. This is due to decreased principal repayments of £458,000 in 2011/12 and reduced net interest payments of £252,000. These reductions are due to a lower than expected borrowing requirement in 2009/10 and 2010/11. The assumptions about interest rates in 2011/12 are detailed in the Treasury Management report elsewhere on the agenda.

Savings Proposals

4.18 The report to Cabinet on 16th December 2010 contained a number of potential savings options. Comments on these options were requested by 14th January 2011. More generally, stakeholder views were invited as part of a wider budget consultation.

4.19 Cabinet Members and officers also met with the School Budget Forum. The response of the School Budget Forum to the budget consultation is attached (appendix F).

4.20 In formulating savings proposals, account has been taken of all responses to the above consultation.

4.21 In addition to the itemised savings proposals detailed in appendix C, each Directorate has adopted a target to achieve management, supervision and administrative staff savings of £500,000. These targets have been allocated to portfolios in appendix C.

4.22 Furthermore, all services have proposed a number of service efficiencies and cost reductions.

4.23 Saving proposals are detailed in appendix C.

Council Tax

4.24 An increase in property numbers will result in additional income of £823,000. Furthermore, it is proposed that the Council Tax levy be increased by 3.4%. This will result in additional income of £2.847m i.e. an overall increase in Council Tax income of £3.670m.

Fees and Charges

4.25 The budget proposals provide for increases in fees and charges in line with inflation. A number of VAT inclusive charges will be subject to a further 2.5% increase as a result of the VAT increase effective from 4th January 2011.

4.26 Proposals for new charges and also increases significantly in excess of inflation are detailed in appendix E.

Summary

4.27 The above proposals will result in a balanced budget in 2011/12. However, the risks and uncertainties detailed in paragraph 5 must be taken into account in considering the overall budget assessment.

The budget proposals are detailed and summarised as follows:

Appendix A	Revenue Budget Summary 2011/12
Appendix B	Portfolio Budget Summary 2011/12
Appendix G	Detailed Budget Proposals 2011/12

5. Risks and Uncertainties

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

Implications of the 2010/11 Overspend

The 3rd quarter financial monitoring report highlighted a number of service overspends. Whilst reasonable provision has been made for the ongoing implications of these overspends – in particular Child & Family Services - there is a risk that budget provision in 2011/12 will not be adequate. Other examples include car park income, Out of County placements and additional take up of school meals.

New Unavoidable Spending Requirements

All services will need to meet a range of additional / new pressures in 2011/12. These include the implications of new legislation ; demographic changes, the recession and other requirements (eg Landfill Tax). Whilst reasonable provision has been made for these costs, there is a risk that some items will result in overspends.

Savings

The 2011/12 budget includes a number of challenging savings targets which must be achieved.

Inflation

Provision has been made for known items only.

Outcome Agreement Grant

The 3rd quarter financial monitoring report highlighted the risk that outstanding Improvement Agreement Grant will not be paid by the Assembly. This grant will be renamed and redefined as Outcome Agreement Grant in 2011/12 and payment of the budgeted amount of £2.3m will be subject to a scoring system to be devised by the Welsh Assembly Government. There is a risk, as is the case in 2010/11, that the Council will not receive the full grant.

Care Home fees

A legal ruling has recently been made in respect of a judgement against Pembrokeshire Council with regard to the level of Care Home fees. As a consequence of the legal ruling the Care Home Fees in Pembrokeshire have been substantially increased by approximately 10%. The position for the City and County of Swansea will need to be reviewed and there is a risk that the Care Home Fees will need to be increased over and above the budget provision.

Specific Grants

A number of specific grants are yet to be announced. In particular, waste management and concessionary fares grants fund over £10m of council spending and any reduction will result in service reductions and possible overspends.

Carbon Reduction Commitment Scheme

The precise implications of this scheme are unclear at this time and there is a risk that the Council may need to make an unbudgeted payment.

Equal Pay Back Payments

The majority of eligible staff have settled their claims against the Council. However, a number of claims remain unresolved and further claims are now being lodged at the Employment Tribunal. These consist of claims for those who had previously settled up to the 31st March 2010 and new claims. As such, it is uncertain if sufficient funding will be available to meet any final settlements or Tribunal awards.

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

International Financial Reporting Standards (IFRS)
Amended accounting standards applicable from April 2010 have affected the way that the Council accounts for certain items of income and expenditure. Whilst officers believe that the standards have been correctly interpreted and implemented, there is a risk that an one-off unbudgeted cost will arise if the Council's external auditor take a different view on a small number of specific items in the light of a wider UK wide review.

Potential VAT Refunds
The above risks may be offset by a successful outcome of VAT claims which the Council is pursuing.

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

6. The Medium Term Financial Plan (MTFP) 2012/13 – 2014/15

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

7. Reserves

Background

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

7.2 In assessing the adequacy of reserves account needs to be taken of the following general factors :

- treatment of inflation and interest rates
- level and timing of capital receipts
- treatment of demand led pressures
- treatment of planned efficiency savings / productivity gains
- financial risks inherent in major capital developments
- the availability of reserves, government grants and other funds
- general financial climate to which the authority is subject

In addition there are local factors to consider including the possibility of further budget overspends and the cost of any future redundancy scheme.

Setting the level of reserves is just one of several related decisions in the formulation of the Medium Term Financial Strategy i.e. it is more than a short term decision.

General Reserves

7.3 The General Reserve amounted to £9.664m at 1st April 2010. There is a planned use of General Reserves in 2010/11 of £3.529m. This will result in a General Reserves of £6.135m as at 31st March 2011. There is no planned use of General Reserves in 2011/12.

Contingency Fund

7.4 A Contingency Fund has been operated since 2008/09. The main purpose is to cushion the impact of unexpected events or emergencies. The general issues considered when assessing the overall level and potential use of the fund are listed in paragraph 7.2.

The following considerations are particularly relevant.

7.5 The 3rd quarter financial monitoring report detailed the forecast use of the Contingency Fund in 2010/11. In particular, the Fund will be used to finance the cost of management and supervision staffing reductions and the forecast budget overspend. The latter is particularly significant and when assessing the adequacy of the Fund going forward, it must be noted that overspends in service budgets have occurred in the last two years i.e.

2009/10 – an actual overspend of £12.063m
2010/11 – a forecast overspend of £5.501m

The 3rd quarter financial monitoring report highlighted a forecast Contingency Fund of £4.747m as at 31st March 2011.

7.6 Paragraph 5 details a number of significant risks and uncertainties. In addition to these, account must also be taken of the general financial outlook for the Council and in particular, the significant budget shortfalls and savings requirements set out in the Medium Term Financial Plan report.

7.7 The attached budget proposals provide for the addition of a further £10m to the Contingency Fund in 2011/12 i.e. a forecast fund of £14.747m available to meet the risks and uncertainties detailed above in particular:

In relation to 2011/12

- Potential budget overspends in the light of 2010/11 overspends and the additional / new pressures arising in 2011/12
- The challenging savings targets reflected in the budget proposals
- The uncertain outlook for inflation and the impact of rising costs on Council budgets
- The potential unbudgeted cost of a pay award to staff earning less than the specified threshold
- The specific risks listed in paragraph 5.1

In relation to future years

- The potential shortfalls forecast in the Medium Financial Plan assessment

- The difficult decisions which will need to be made to achieve future savings

- The cost of any future voluntary redundancy scheme

. This is a similar level to the Fund which has applied and been required in 2010/11.

Earmarked Reserves

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

7.9 The Insurance Fund was subject to an actuarial review in December 2010.

The actuary's report highlighted potential shortfalls in relation to sums set aside for high profile claims which are yet to be settled. In addition, account also needs to be taken of the growing trend of claims against the Council and the need to invest in measures to defend against future claims.

My advice continues to be that a cautious approach is needed in assessing the overall level of the Insurance Fund. As such, the budget proposals assume that the Fund will be maintained at its current level subject to ongoing review.

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

Adequacy of Reserves

7.11 Whilst the proposed use of Earmarked Reserves in 2011/12 funds some recurring expenditure, taking into account the level of the Contingency Fund and General and Earmarked Reserves which would be available should there be an overriding financial requirement, and the arrangements in place to monitor and manage financial risk in 2011/12 and future years, I am satisfied that the proposed management of reserves in 2011/12 will result in a forecast level of General Reserves, Earmarked Reserves and Provisions which is adequate, subject to the potential financial implications of the risks described in paragraph 5 above.

7.12 Given the considerable risks and uncertainties facing the Council in 2011/12 and future years, it remains my advice as the officer designated with responsibility for the overall finances of the Council that the above represents prudent financial management.

8. Budget Requirement and Council Tax 2011/12

8.1 I am also satisfied that the attached budget proposals represent a realistic and achievable financial plan for 2011/12 subject to the potential financial implications of the risks described in paragraph 5 above.

8.2 The Council's recommended requirement is set out in appendix A. Net expenditure of £384.868m will be financed by Revenue Support Grant £242.743m, National Non-Domestic Rates £55.556m and Council Tax £86.569m. The Council Tax in respect of the Council's own requirement would be £990.91p for a band 'D' property – an increase of 3.4% compared to 2010/11.

8.3 Including Community Councils, the total requirement is £385.689m.

8.4 The overall Council Tax amounts, including the requirements of the South Wales Police Authority and Community Councils will be set out in the Resolutions to be made in accordance with the regulations for the setting of the Council Tax 2011/12.

9. Equality Impact Assessment (EIA)

9.1 Proposals for changing levels of funding in specific areas have been subject to a screening process and EIA report when required. Service managers have considered the implications of proposed budgetary decisions and believe that the proposed budget protects the most vulnerable and will not disproportionately impact on protected groups.

Further details about the budget EIA and specific service level assessments will be available on the Council's website.

10. Legal Implications

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

11. Recommendations

The following budget proposals be approved:

a) A revenue budget for 2011/12 and
b) A Budget Requirement and Council Tax levy for 2011/12

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

APPENDIX A

REVENUE BUDGET SUMMARY 2011/12

PORTFOLIO	BUDGET 2010/11 £000	BUDGET 2011/12 £000
COMMUNITY, LEADERSHIP & DEMOCRACY	3,675	4,052
CULTURE, RECREATION & TOURISM	18,152	16,962
EDUCATION	155,294	153,891
ECONOMIC REGENERATION & PLANNING	3,265	3,598
ENVIRONMENT	29,034	26,578
FINANCE	6,331	5,489
HOUSING	5,670	5,424
COMMUNITY REGENERATION	3,190	2,777
SOCIAL SERVICES	93,633	96,136
BUSINESS IMPROVEMENT & EFFICIENCY	16,663	14,944
NET PORTFOLIO EXPENDITURE	**334,907**	**329,851**
OTHER ITEMS		
CORPORATE PROVISION FOR INFLATION	0	2,000
LEVIES		
SWANSEA BAY PORT HEALTH AUTHORITY	100	98
CONTRIBUTIONS		
MID & WEST WALES COMBINED FIRE AUTHORITY	11,452	11,382
CAPITAL FINANCING CHARGES		
PRINCIPAL REPAYMENTS	12,855	12,397
NET INTEREST CHARGES	14,782	14,530
NET REVENUE EXPENDITURE	**374,096**	**370,258**
MOVEMENT IN RESERVES		
GENERAL RESERVES	-3,529	0
EARMARKED RESERVES	13,981	14,317
TOTAL BUDGET REQUIREMENT	**384,548**	**384,575**
DISCRETIONARY RATE RELIEF	280	293
TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT	**384,828**	**384,868**
COMMUNITY COUNCIL PRECEPTS	801	821
TOTAL REQUIREMENT	**385,629**	**385,689**
FINANCING OF TOTAL REQUIREMENT		
REVENUE SUPPORT GRANT	236,518	242,743
NATIONAL NON-DOMESTIC RATES	65,411	55,556
COUNCIL TAX - CITY AND COUNTY OF SWANSEA	82,899	86,569
COUNCIL TAX - COMMUNITY COUNCILS	801	821
TOTAL FINANCING	**385,629**	**385,689**
COUNCIL TAX BASE for the City and County of Swansea	86,504	87,363
COUNCIL TAX AT BAND 'D' (£) for the City and County of Swansea	958.33	990.91

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

APPENDIX B

REVENUE BUDGET 2011/12

NET PORTFOLIO BUDGET PROPOSALS

	Community Leadership & Democracy	Culture, Recreation & Tourism	Education	Economic Regeneration & Planning	Environment	Finance	Housing	Community Regeneration	Social Services	Business Improvement & Efficiency	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Original estimate 2010/11	4,146	18,152	155,294	3,265	29,034	5,805	5,670	3,190	93,633	16,718	334,907
Portfolio transfers on published budget	-471					526				-55	0
Original budget after transfers	3,675	18,152	155,294	3,265	29,034	6,331	5,670	3,190	93,633	16,663	334,907
Portfolio transfers in 2010/11	489	161	-95	201	-325	-196	9	-135	-3	-106	0
Transfer to (+) / from (-) reserves 2010/11	25	161	-15	-30	-111	4,580			-115	-514	3,981
Original estimate 2010/11 excluding reserves	4,189	18,474	155,184	3,436	28,598	10,715	5,679	3,055	93,515	16,043	338,888
Baseline adjustments			250						654	45	949
Adjusted service budgets 2010/11	4,189	18,474	155,434	3,436	28,598	10,715	5,679	3,055	94,169	16,088	339,837
Spending Needs	16	80	561	426	98	158	60	15	3,977	45	5,436
Savings	-128	-1,431	-2,119	-234	-2,155	-805	-315	-293	-2,010	-1,860	-11,350
Original estimate 2011/12 excluding reserves	4,077	17,123	153,876	3,628	26,541	10,068	5,424	2,777	96,136	14,273	333,923
Transfer to (-) / from (+) reserves 2011/12	-25	-161	15	-30	37	-4,579				671	-4,072
Net portfolio budgets 2011/12	4,052	16,962	153,891	3,598	26,578	5,489	5,424	2,777	96,136	14,944	329,851

APPENDIX C

SERVICE SAVINGS PROPOSALS

	£000
COMMUNITY, LEADERSHIP & DEMOCRACY	
REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	128
TOTAL	**128**
CULTURE, RECREATION & TOURISM	
REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	279
SERVICE EFFICIENCIES AND COST REDUCTIONS	222
REDUCE EXPENDITURE ON SPECIAL EVENTS	45
REDUCE GROUNDS MAINTENANCE SERVICE	230
REVIEW CEFN HENGOED FACILITY	100
REVIEW PONTARDDULAIS FACILITY	25
REDUCE LEISURE CENTRE SUBSIDY	200
TRANSFER DYLAN THOMAS CENTRE TO UNIVERSITY OF WALES	120
REDUCE PARKING SUBSIDY TO NATIONAL MUSEUM	20
REDUCE PUBLICLY FUNDED FLORAL DISPLAYS	40
CLOSE LIBRARIES (SUBJECT TO CONDITION SURVEYS)	150
TOTAL	**1,431**
EDUCATION	
REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	431
SERVICE EFFICIENCIES AND COST REDUCTIONS	1,144
OTHER SAVINGS OPTIONS	
PHASED REDUCTION IN MUSIC SERVICE FUNDING	204
TRANSITION OF SERVICES TO STATUTORY MINIMUM	300
REDUCED SUPPORT TO ARTS AND VOLUNTARY GROUPS	40
TOTAL	**2,119**
ECONOMIC REGENERATION & PLANNING	
REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	71
SERVICE EFFICIENCIES AND COST REDUCTIONS	163
TOTAL	**234**
ENVIRONMENT	
REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	500
SERVICE EFFICIENCIES AND COST REDUCTIONS	865
REDUCE STREET LIGHTING IN RESIDENTIAL AREAS	250
REDUCE BUS SUBSIDIES	100
REVIEW CAR PARK MANAGEMENT ARRANGEMENTS	50
REVIEW OPERATION OF CIVIC AMENITIES SITES	100
REDUCE PRIVATE SECTOR EMPTY PROPERTY WORK	40

SERVICE SAVINGS PROPOSALS

	£000
SALE OF RECYCLED CLOTHING (CURRENTLY A CHARITABLE CONCESSION)	100
INTRODUCE CHARGES FOR CAR PARKS WHICH ARE CURRENTLY FREE	100
REVIEW OF WASTE DISPOSAL OPERATIONS	50
TOTAL	**2,155**

FINANCE

REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	275
SERVICE EFFICIENCIES AND COST REDUCTIONS	390
CLOSE GORSEINON CASH OFFICE	40
REDUCE DISCRETIONARY GRANT FUNDING (THIRD SECTOR)	100
TOTAL	**805**

HOUSING

REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	160
SERVICE EFFICIENCIES AND COST REDUCTIONS	155
TOTAL	**315**

COMMUNITY REGENERATION

REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	93
SERVICE EFFICIENCIES AND COST REDUCTIONS	100
SERVICE EFFICIENCIES - YOUTH SERVICE	100
TOTAL	**293**

SOCIAL SERVICES

REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	500
SERVICE EFFICIENCIES AND COST REDUCTIONS	360
REDUCE OPERATIONAL COST FOR HOME CARE	500
REMODEL THE RESPITE SERVICE FOR YOUNGER ADULTS	150
REVISED SKILL MIX IN SOCIAL WORK TEAMS	250
REVIEW AND RECONFIGURE THE ARRANGEMENTS FOR SOCIAL CENTRES	200
SOCIAL INCLUSION UNIT - REDUCE WELFARE RIGHTS ADVISERS	50
TOTAL	**2,010**

BUSINESS IMPROVEMENT & EFFICIENCY

REDUCED MANAGEMENT, SUPERVISION AND ADMINISTRATION COSTS	598
SERVICE EFFICIENCIES AND COST REDUCTIONS	732

APPENDIX C

SERVICE SAVINGS PROPOSALS

	£000
REDUCTION IN PAYMENTS FOR ICT USERS	180
REDUCTION IN IT CONTRACT PRICE	250
REDUCTION IN TRADE UNION FACILITIES AGREEMENT	100
TOTAL	**1,860**
TOTAL SERVICE SAVINGS PROPOSALS	**11,350**

REVENUE BUDGET 2011/12

EARMARKED RESERVES

	Balance 01/04/10 £000	2010/11 £000	Balance 31/03/11 £000	2011/12 £000	Balance 31/03/12 £000
PORTFOLIO RESERVES					
Equalisation reserves	812	0	812	0	812
Development projects / external bodies	2,171	-110	2,061	10	2,071
Pay & Gradings review	12,877	4,321	17,198	4,225	21,423
Service reserves	2,996	-288	2,708	-281	2,427
Renewal funds	6,061	-512	5,549	118	5,667
TOTAL PORTFOLIO RESERVES	**24,917**	**3,411**	**28,328**	**4,072**	**32,400**
CORPORATE RESERVES					
Contingency Fund	4,687	60	4,747	10,000	14,747
Other corporate reserves	13,534	0	13,534	245	13,779
TOTAL CORPORATE RESERVES	**18,221**	**60**	**18,281**	**10,245**	**28,526**

SCHOOLS DELEGATED RESERVES 3,868 No information available

APPENDIX D

PROPOSED INCREASES IN FEES & CHARGES 2011/12

DETAILS	PROPOSED CHARGE / INCREASE
SOCIAL SERVICES DIRECTORATE	
Community Meals / Day Service Meals	£2.70p to £3.50p per meal
Basic Community Alarm Service (new charge with effect from 01/07/11)	A flat charge of £100 subject to a part / full concession being applied
Telecare Service	Charges for Telecare will be introduced based on the costs of specific services / equipment
ENVIRONMENT DIRECTORATE	
Parking Charges (at suburban car park tariffs) to be introduced at Lime Street (Gorseinon), Treharne Road, Sway Road (Morriston) and (subject to resolution of access issues) Brighton Road car park	Standard tariff to apply

APPENDIX F

12th January 2011

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

Dear Councillor Holley,

School Budget Forum Response to Budget Consultation

In view of the short timescale for responses to the Budget 2011/12 and Medium Term Financial Plan presented to Cabinet on the 16th December 2010, this input to the current corporate budget process has been drafted and agreed by representatives of the School Budget Forum. **It reflects the wide ranging discussions held in the weeks prior to Christmas with Headteachers and their representatives, as well as the issues raised at the meeting of the School Budget Forum on January 10th 2011, and will be formally endorsed at the next meeting of the Forum.**

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

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

We have appreciated the positive response in Council Budgets prior to 2010/11 to some of the recommendations made by the Forum, particularly:

- The recognition of the essential contribution of the Education service to the achievement of wider Council priorities
- The recognition of the severe financial pressures facing school delegated budgets and other statutory Education services
- The agreement that future savings from falling school rolls will be available to schools to at least, in part, support the financial pressures identified and to some degree, help to stabilise school delegated budgets across the sectors

- The agreement that school budgets will not be subject to any efficiency or savings assumption in 2008/09 and subsequent years

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

The Forum also appreciates the Council's commitment to deliver fully the national education funding guarantee and so prioritise the delegated schools budget. This is clearly an improvement on earlier indications of a potential 3% cash reduction in each of the next 3 years and is welcomed. The Forum also appreciates the Council's continuing commitment to children and young people in two of its three key priorities for the coming year.

Nevertheless, **the Forum would wish to remind the Council that the delegated schools budget in Swansea took a significantly greater budget cut in the curent financial year than most other Welsh Authorities as a result of the Council's inability to meet the costs of the teachers' pay award.** This significantly added to the cost pressures that already needed to be contained by schools and is apparent from the national funding comparisons published each year by the Assembly.

The Forum notes that, whilst there is no requirement that councils should spend at the level of their Education Indicator Based Assessments determined by the Assembly (IBA), this is likely to remain a national funding comparator. Over recent years, Swansea has consistently spent above its Education IBA, although the percentage has declined each year. Whilst the Forum accepts that Swansea is also funded at a lower level in terms of Education IBA per pupil than the average across Wales (18th out of 22 Authorities in Wales in terms of Education IBA per pupil):

- **In the current year (2010/11) Swansea is spending at 97.8% of its Education IBA compared with an average of 99.4% across Wales as a whole**

- **Swansea's Education IBA was reduced by 0.2% in 2011/12** compared to a larger reduction across Wales as a whole of 0.6%. Consequently, any significant cut in non delegated education spending will worsen this comparison

- In Swansea, **the gross schools budgeted expenditure for 2010/11 is £5,177 per pupil, the 3rd lowest in Wales,** compared with an average across Wales of £5,418 per pupil

The underlying pressures facing schools are also apparent from the extent to which schools as a whole utilised one-off funding from balances in 2009/10 which saw schools spend almost £1.3m more than their approved delegated budgets. A similar or greater reduction is anticipated in the current financial year and this is clearly unsustainable in the future. Indeed, **it is anticipated that secondary schools as a whole will be in deficit by the end of the current year.**

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

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

The Forum is also supportive of the principle of additional delegation of funding and responsibilities to schools **where it can be demonstrated that this will add value in some way to the quality or value for money obtained.**

However, **the Forum remains concerned at the financial assessment and broad options for achieving a balanced budget set out in the Cabinet Report of December 16th 2010** and would particularly emphasise the following points:

- **Whilst the earlier consultation is welcomed, the Forum would stress the need for greater transparency regarding the decisions of the Council and it does not consider that the report provides a sufficient level of detail to be considered an adequate basis for genuine consultation.** Consequently, whilst the Director provided further details in discussion this week, the Forum would expect a further opportunity to comment on the fuller detailed package of proposals for the non delegated education budget as soon as possible, **particularly regarding the wide range of services that are currently provided from non delegated education budgets but which nevertheless remain front line services for specific pupil needs.**
- There is a distinct lack of clarity around the estimation of pay and price increases which contribute to the £23 million shortfall in paragraph 4.3. The Forum is concerned that proposed staffing cuts and prospective future pay freezes or more modest awards have not been properly assessed under this analysis, thereby producing an inflated shortfall and the consequent need for more cuts to meet it.
- The Forum accepts that the Council will make local choices regarding those services which will be reduced or indeed ceased altogether, mindful of its statutory and regulatory responsibilities. However, the Forum is extremely concerned that the proposed scale of cuts in non delegated Education provision will, effectively, transfer additional responsibilities to schools, without transferring the current budget provision, nor access to the same level of professional advice and support. **If the Council is to avoid challenge by stakeholders, and indeed the Minister, there must be absolute transparency to ensure that any additional responsibilities placed on schools (and the current funding allocated to them) are fully reflected in the education funding guarantee.**
- The Forum would seek clarification of the justification for the scale of the proposed **cash reduction** in funding for Education services within Swansea when the Assembly Settlement provides for a 0.2% reduction

in Education IBA and a reduction of 1.5% in Assembly funding to the Council as a whole. The Comprehensive Spending Review subsequently provides for a cash increase of 0.58% in 2012/13 and 1.08% in 2013/14, yet the proposed cuts in the Budget Report appear to indicate:

  - A cash reduction over the next three years of 4.6% on the Education budget as a whole, which represents a 17.7% cash reduction for the non delegated education provision
  - A scale of cuts in 'management, supervision and administration' and 'service efficiencies and cost reductions' which will inevitably have serious implications for front line education provision for pupils

- The Forum asks how the proposed financial plan carries forward the Council's commitment to deliver on increase in Education funding per pupil within Swansea
- The Forum asks for clarification of cuts by directorate as a proportion of the current directorate budgets, as this is not clear from the papers
- The Forum would like to establish whether the costs of the pay increase to support staff paid less than £21k per annum will be met by the Council or by schools
- The Forum would ask whether the Council is prepared to accept the extremely serious implications of the proposed financial plan in relation to Education services for children within Swansea

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

Yours sincerely,

Mrs PA Morgan
Head Teacher
Clwyd Community Primary School

Hugh Davies
Chair of School Budget Forum

Ann Morgan
Vice-Chair of School Budget Forum

PORTFOLIO BUDGETS

2011/12

Revenue Budget 2011/2012

Community Leadership & Democracy

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Marketing Communications and Overview		
Communications	361,200	362,500
Corporate Marketing	245,400	163,600
Corporate Mgt Team Support	459,200	419,000
Mayoral Service	133,500	214,800
Overview and Scrutiny	303,200	283,200
	1,502,500	1,443,100
Head of Swansea Bay Futures		
Swansea Bay Futures	79,400	0
	79,400	0
Head of Legal, Democratic Services and Procurement		
Democratic Services and Complaints	704,700	721,800
Elections	301,100	293,000
Members Costs	1,587,600	1,594,400
	2,593,400	2,609,200
Head of Marketing Communications and Overview		
Corporate Marketing Savings	-200,000	0
Head of Service Savings	-300,000	0
	-500,000	0
Total Community Leadership & Democracy	3,675,300	4,052,300

Revenue Budget 2011/2012

Culture, Recreation and Tourism

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Director of Regeneration and Housing		
Regeneration Directorate	162,000	206,000
	162,000	206,000
Head of Culture and Tourism		
Archives	327,200	296,500
Arts	2,710,700	2,407,500
Development and Outreach	487,900	460,400
Libraries	3,147,100	3,000,000
Parks	5,970,000	5,807,300
Sport & Recreation	3,006,300	2,608,300
Tourism, Marketing and Events	1,735,300	1,529,300
Directorate & Other Costs	605,500	646,700
	17,990,000	16,756,000
Total Culture, Recreation and Tourism	18,152,000	16,962,000

Education

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Delegated Schools		
School Cost Centres	121,145,000	121,710,000
	121,145,000	121,710,000
Head of Education Effectiveness		
Better Schools Fund	866,600	761,600
Education Library and Resources	27,200	0
ELIS	30,700	8,800
Ethnic Minority Language Service	581,900	337,900
Management and Admin	225,200	205,200
Miscellaneous Grants	184,200	22,600
Music Service	510,300	193,300
Remodelling Secondment	5,200	0
School Effectiveness	1,097,000	1,047,900
School Intervention	311,600	303,400
Support for the Arts	119,200	78,300
Travellers Service	65,400	42,300
Welsh Service	476,600	398,100
	4,501,100	3,399,400
Head of Education Inclusion		
Access to Learning Mgt and Admin	253,000	253,000
Behaviour and Learning Support	1,636,600	1,440,200
Community Education	569,100	407,600
Cymorth	0	250,000
Employment Training	949,500	822,500
EOTAS Pathways	826,400	819,400
Home Tuition Service	626,700	529,000
Management and Admin	145,000	145,000
One to One Support Primary	4,942,600	4,892,600
One to One Support Secondary	2,395,200	2,395,200
Psychology Service	758,400	731,400
Pupil Referral Units	1,837,600	1,769,300
Recoupment	690,400	690,400
School and Governor Unit	288,500	288,500
SEN Statementing and Support	3,036,300	2,951,200
Student Finance	283,500	264,500
Welfare Service	605,300	585,300
	19,844,100	19,235,100

Revenue Budget 2011/2012

Education

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Education Planning and Resources		
Asset Management	135,800	113,800
Cleaning Service	1,026,400	975,400
Continuing Education	786,500	781,200
DCELLS	-6,792,900	-7,196,600
Empty Properties	600	600
Health and Safety	62,900	27,900
ICT Strategy	972,800	885,800
Management and Admin	942,200	967,600
School Cost Centres	12,400,100	12,221,700
School Funding and Information	129,400	129,400
School Meals Client	697,700	697,700
School Meals Service	-122,000	-122,000
School Planning and Information	64,300	64,300
	10,303,800	9,546,800
Management and Supervision Costs		
Management and Supervision Costs	-500,000	0
	-500,000	0
Total Education	**155,294,000**	**153,891,300**

Revenue Budget 2011/2012

Economic Regeneration & Planning

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Regeneration and Planning		
Business Support	369,200	353,300
City Centre Management & Indoor Market	-199,900	-220,200
Major Projects, Design & Conservation	86,200	171,500
Planning Control	478,800	1,006,400
Planning Policy & Environment	892,900	914,000
Property Development	503,900	485,400
Strategy Development	719,800	677,300
Directorate & Other Costs	414,200	210,300
	3,265,200	3,598,000
Total Economic Regeneration & Planning	**3,265,200**	**3,598,000**

Revenue Budget 2011/2012

Environment

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Director of Environment		
Environment Directorate	147,900	-322,300
	147,900	-322,300
Head of Public Protection		
Building Regulations	170,700	158,400
Burials & Cremations	16,700	214,300
Food & Safety	494,700	620,800
Licensing	-93,100	-121,100
Pollution	789,800	789,700
Public Health	1,004,600	893,100
Registrars	142,500	94,500
Trading Standards	861,700	779,400
Directorate & Other Costs	608,000	605,900
	3,995,600	4,035,000
Head of Streetscene		
Highways	7,922,500	6,938,800
Waste Management	13,440,300	12,736,900
	21,362,800	19,675,700
Head of Transportation		
Car Parking & Enforcement	-1,704,500	-1,695,900
Central Transport	107,900	-160,300
Engineering	353,700	359,300
Highways Management Group	0	216,800
Swansea Marina	25,500	26,300
Traffic Management	1,257,000	1,047,900
Transportation	2,912,100	2,752,300
Directorate & Other Costs	575,800	642,500
	3,527,500	3,188,900
Total Environment	**29,033,800**	**26,577,300**

Revenue Budget 2011/2012

Finance

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Marketing Communications and Overview		
Design and Print	368,300	324,000
	368,300	324,000
Resources Directorate		
Resources Directorate	163,000	163,800
Corporate Provision for Inflation	0	0
	163,000	163,800
Head of Finance		
Audit	538,000	540,200
Corporate Costs and Revenues	-746,500	-745,600
Finance DMT	-886,300	-886,400
Treasury and Technical	1,260,400	1,034,600
Accountancy	1,504,100	1,645,600
Revenues & Benefits	2,566,700	2,612,700
	4,236,400	4,201,100
Head of Corporate Building and Property Services		
Facilities Management	3,845,500	3,640,800
Strategic Estates Properties	-3,483,800	-3,739,400
	361,700	-98,600
Head of Legal, Democratic Services and Procurement		
Procurement	424,800	221,400
	424,800	221,400
Head of Performance and Strategic Projects		
Swansea Change Fund	776,800	676,800
	776,800	676,800
Total Finance	6,331,000	5,488,500

Revenue Budget 2011/2012

Housing

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Housing and Community Regeneration		
Homelessness Prevention	-1,000	-1,000
Grants to Independent Sector	85,500	85,500
Urban Renewals	391,000	410,600
Strategy Advice and Support	765,600	672,000
Other Housing Services	75,900	77,900
	1,317,000	1,245,000
Head of Corporate Building and Property Services		
Corporate Building Services	-55,700	-170,200
Property Preventative Maintenance	4,408,700	4,349,800
	4,353,000	4,179,600
Total Housing	5,670,000	5,424,600

Revenue Budget 2011/2012

Community Regeneration

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Education Effectiveness		
Cymorth	100,500	100,500
Out of Hours Learning	16,500	16,500
Play	109,500	109,500
Residential and Outdoor	246,600	245,400
Youth Service	1,208,500	1,041,500
	1,681,600	1,513,400
Head of Public Protection		
Community Safety	639,400	651,500
	639,400	651,500
Head of Culture and Tourism		
Community Buildings	419,100	276,000
Healthy Directions	96,600	97,000
	515,700	373,000
Head of Housing and Community Regeneration		
Community Regeneration	266,500	239,000
Directorate & Other Costs	86,800	0
	353,300	239,000
Total Community Regeneration	3,190,000	2,776,900

Social Services

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Child and Family Services		
Assessment and Care Mgt Child and Family	7,539,400	7,456,600
Accomodation Services-External	7,562,200	10,536,800
Accomodation Services-Internal	4,462,400	4,570,300
Residential Care-Internal Provision	1,197,800	1,197,800
Adoption Services	907,400	830,700
Aftercare-External	475,800	472,200
Aftercare-Internal	527,900	527,900
Family Support Services-External	2,098,900	2,028,300
Family Support Services-Internal	1,256,300	1,419,500
Other Children's Services-Internal	918,400	1,104,900
Preventing Youth Offending	1,059,900	1,059,900
Review and Quality Assurance	418,900	418,900
Mgt and Admin Child and Family	2,135,700	2,350,200
	30,561,000	33,974,000
Head of Adult Services (Older People and Disability)		
Assessment and Care Management Older People	3,353,200	3,177,600
Community Alarms Older People	302,900	229,900
Community Meals External Provision	151,700	187,400
Day Services Older People	990,600	996,000
Domicillary Care Older People	13,348,600	13,068,000
Intermediate Care Older People	194,800	188,900
Occupational Therapy Older People	494,200	494,200
Older People & Disability Service Administration	1,316,300	1,117,600
Residential Long Term Older People	13,424,300	13,618,900
Residential Short Term Older People	490,300	193,500
Voluntary Agencies Contributions Older People	58,600	58,600
Assessment and Care Management Disability Services	808,000	774,500
Community Alarms Disability Services	5,200	5,200
Day Services Disability Services	706,900	627,800
Domicillary Care Disability Services	1,850,200	2,089,700
Equipment and Adaptations	565,200	563,000
Suresprung	0	0
Occupational Therapy Disability Services	232,600	232,600
Residential Long Term Disability Services	1,153,400	1,232,100
Voluntary Agencies Contributions Disability Serv.	228,600	58,600
	39,675,600	38,914,100

Revenue Budget 2011/2012

Social Services

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Adult Services (Mental Health and Learning Disabilities)		
Carers	35,000	0
Central Management and Administration	973,800	883,300
Coastal	0	0
Commissioning Support Unit	111,100	136,100
Community Mental Health Teams	1,006,200	1,012,200
Community Support Teams	1,032,200	1,056,900
Flexible Support Services Learning Disabilities	383,600	243,200
Learning Disability Day Services	3,984,900	3,911,100
Learning Disability Respite Services and Maesglas	1,503,400	1,511,100
Llanfair House	355,800	355,600
Mental Handicap Strategy	-1,718,700	-1,733,700
Mental Health Day Services	542,500	577,800
Protection of Vulnerable Adults	230,300	230,300
Residential Services-Ext Provision Learning Dis.	7,116,200	6,981,200
Residential Services-Ext Provision Mental Health	1,576,200	1,501,200
Special projects Learning Disabilities	196,800	116,800
Substance and Alcohol Abuse	142,100	142,100
Transport Depot	1,512,800	1,518,300
	18,984,200	18,443,500
Directorate Services		
Carers	614,100	591,200
Commissioning Support Unit	1,999,400	2,111,800
Service Strategy and Regulation	0	0
Supporting People Services	583,300	531,400
Central Services	1,347,800	1,202,000
Service Strategy and Regulation	134,600	134,600
Social Services Training Section	233,000	233,000
Reduced Management & Supervision costs	-500,000	0
	4,412,200	4,804,000
Total Social Services	93,633,000	96,135,600

Business Efficiency and Improvement

	ORIGINAL BUDGET 2010/2011 £	ORIGINAL BUDGET 2011/2012 £
Head of Human Resources and OD		
Health and Safety	987,800	953,300
Human Resources & Pensions	1,540,800	1,311,800
Job Evaluation	0	0
Payroll	598,100	702,200
Training	274,100	293,400
	3,400,800	3,260,700
Head of Information and Customer Services		
Contact Swansea	1,268,000	1,276,900
ICT	7,239,100	6,048,500
ICT Education	0	0
ISIS Development	481,200	479,500
Research and Information	529,500	532,100
	9,517,800	8,337,000
Head of Legal, Democratic Services and Procurement		
Coroners	428,200	427,100
Legal Services	1,548,700	1,300,100
Practice Management	258,900	231,700
	2,235,800	1,958,900
Head of Performance and Strategic Projects		
Joint Resilience Unit	209,700	189,700
LRF Secretariat	0	0
Performance and Strategic Planning	546,900	546,000
Strategic Projects	752,000	651,300
	1,508,600	1,387,000
Total Business Efficiency and Improvement	16,663,000	14,943,600

Treasury Management Strategy, Prudential Indicators, Investment Strategy & Minimum Revenue Provision Policy Statement 2011/12

Report of the Section 151 Officer

Extraordinary Council – 28th February 2011

TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2011/12

Summary	
Purpose:	To recommend the Treasury Management Strategy Statement, Prudential Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement for 2011/12.
Policy Framework:	None
Reason for Decision:	To allow for the proper management of the Council's borrowing and investments, to comply with statute, and the adopted CIPFA Prudential Code for Capital Finance in Local Authorities and the Revised CIPFA Treasury Management Code of Practice.
Consultation:	Legal and Finance.

1 Introduction

1.1 This strategy statement has been prepared in accordance with the revised CIPFA Treasury Management Code of Practice adopted by this Council in 2010. The Council's Treasury Management Strategy will be approved annually by Council and there will also be a mid year report providing an interim update. In addition monitoring reports will be provided to the Cabinet Member for Finance. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the scrutiny of the Treasury Management function appreciate fully the implications of Treasury Management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 Revised CIPFA Prudential Code

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

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

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

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

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

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

1.5 The recommended strategy for 2011/12 in respect of the following aspects of the Treasury Management function is based upon a view on interest rates, having considered leading market forecasts provided by the Council's treasury advisor. The strategy covers:

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

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

2 Treasury Limits for 2011/12 to 2014/15

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

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

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

2.2 Under statute, the Council is required to set an "Affordable Borrowing Limit" which outlines the limits of how much the Council can afford to borrow. In Wales, 'the

Authorised Limit' represents the legislative limit specified in section 3 of the Local Government Act 2003.

2.3 The Council must have regard to the Prudential Code when setting the 'Authorised Limit' which essentially requires it to ensure that total capital investment remains within sustainable limits. The Authorised Limit is to be set for the forthcoming financial year and two successive financial years.

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

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

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

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

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

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

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

Treasury Management Prudential Indicators						
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Probable	Estimate	Estimate	Estimate	Estimate
Capital Expenditure						
GF	44,782	54,866	42,052	29,531	24,234	20,261
HRA	14,253	15,464	22,422	17,500	17,500	9,000
Capital Financing Requirement						
GF*	305,019	305,319	308,319	307,454	303,145	294,379
HRA	75,268	74,252	71,471	69,741	68,894	67,216
Magistrates' Court**	1,877	1,840	1,730	1,661	1,628	1,563
Authorised limit for external debt	542,320	528,520	528,520	528,520	528,520	525,856
Operational boundary for external debt	431,320	421,520	421,520	421,520	421,520	418,856
Upper limit for fixed interest rate exposure	542,320	528,520	528,520	528,520	528,520	525,856
Upper limit for variable rate exposure	216,928	211,408	211,408	211,408	211,408	210,342
Upper limit for total principal sums invested for over 364 days	75,000	75,000	75,000	75,000	75,000	75,000

* The GF Capital Financing Requirements includes arrangements classified as credit arrangements (finance leases) under International Financial Reporting Standards (IFRS) requirements as of 2009/10, however these continue to be funded on a revenue basis and do not form part of the borrowing requirement.

** Legacy Magistrates' Court debt included for completeness

Maturity structure of fixed rate borrowing during 2010/11-20014/15		
	Upper limit %	Lower limit %
Under 12 months	50	0
12 months and within 24 months	50	0
24 months and within 5 years	50	0
5 years and within 10 years	85	0
10 years and above	95	15

Ratio of Financing Costs to Net Revenue Stream						
	Actual 2009/10 %	Revised 2010/11 %	Estimate 2011/12 %	Estimate 2012/13 %	Estimate 2013/14 %	Estimate 2014/15 %
General Fund	7.73	6.99	6.98	7.00	7.74	7.75
HRA	12.35	11.11	9.79	9.30	8.91	8.61

Estimates of Incremental Impact of Capital Investment Decisions on Council tax (Band D) and Council Housing Rents						
	Actual 2009/10 £	Revised 2010/11 £	Estimate 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £	Estimate 2014/15 £
General Fund	74.50	71.38	68.19	74.82	116.32	118.82
HRA	0.00	0.00	0.00	0.00	0.00	0.00

3. Current Portfolio Position

3.1 The Council's probable debt portfolio position at 31/3/11 comprises:

	Principal outstanding 31 March 2011 £'000	Average rate of Interest %
Fixed Interest Rates		
Public Works Loan Board (fixed)	238,847	6.11
Money Market	98,000	4.10
Variable Interest Rates		
Public Works Loan Board (variable)	-	-
Trusts and charities/internal/temp	1,531	1.03
TOTAL	**338,378**	**5.51**

3.2 The Council's probable investment portfolio at 31 March 2011 will be as follows:

	Investments 31 March 2011	2010/11 Estimated Investment Return	2011/12 Estimated Investment Return
	£'000	%	%
Externally Managed Investments	22,118,755	0.70	1.20
Internally Managed Investments	95,000,000	1.00	0.81

4. Prospects for Interest Rates

4.1 The following table gives Sector's (our treasury advisors'), interest rate forecast for both short term (bank rate) and long term (PWLB) interest rates as at 27th January 2011. There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

	Mar 2011 %	Jun 2011 %	Sep 2011 %	Dec 2011 %	Mar 2012 %	Jun 2012 %	Sep 2012 %	Dec 2012 %	Mar 2013 %	Jun 2013 %
Base Rate	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.25	2.75
5yr Gilt Yield	3.00	3.10	3.20	3.30	3.50	3.80	4.10	4.30	4.40	4.50
10yr PWLB	4.10	4.10	4.20	4.30	4.40	4.60	4.80	4.90	5.00	5.10
25yr PWLB	5.10	5.20	5.30	5.30	5.40	5.40	5.40	5.50	5.50	5.50
50yr PWLB	5.20	5.20	5.40	5.40	5.50	5.50	5.50	5.60	5.60	5.60

4.2 Economic Background

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

5 Borrowing Requirement

5.1 The Council will have the following net capital borrowing/repayment requirements for 2010/11 to 2014/15.

	2009/10 Actual £'000	2010/11 Probable £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
To finance new capital expenditure by supported borrowing	11,017	11,003	8,141	8,141	8,141	8,141
To finance new capital expenditure by unsupported borrowing	3,162	-	7,956	4,049	-	-
To replace loans maturing/repaid prematurely	5,153	5,978	6,084	6,151	6,283	7,323
Less						
Repayments	14,006	13,999	13,933	14,554	18,221	18,480
Set aside capital receipts	527	450	300	300	300	300
NET BORROWING /(REPAYMENT) REQUIREMENT EACH YEAR	4,799	2,532	7,948	3,487	(4,097)	(3,316)

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

5.3 At time of writing, borrowing rates are materially higher then investment rates, and it is projected that the borrowing requirements for 2010/11 and 2011/12 will be internalised, whilst continuing to appraise market conditions and opportunities to externalise debt when borrowing rates offer long term value. However short term savings by avoiding new long term external borrowing in 2011/12 will be weighed against the potential additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

6 Borrowing Strategy

6.1 The unprecedented financial banking crisis has highlighted the need for caution whilst managing credit counterparty risk. This is the risk of a bank or institution that the Council lends money to cannot pay the interest owed and or default on the capital lent. It is necessary to be mindful of these considerations when determining the borrowing strategy for 2011/12. The next financial year is expected to continue the run of historically low Bank Rate. This opens up an opportunity to fundamentally review the strategy of undertaking external borrowing. The Council holds investment balances, which affords the opportunity of 'internal borrowing.' As long term borrowing rates are expected to be higher than rates available for investment deposits and look likely to be so for the next couple of years or so, the Council have determined not to undertake any external borrowing whilst there is the dislocation between borrowing and investment rates whilst also actively managing credit counterparty risk and interest rate risk.

6.2 The main strategy (with a view to minimising interest costs) is therefore to internalise borrowing for the remainder of 2010/11 and for 2011/12, whilst monitoring the PWLB rates to undertake borrowing if rates offer long term value in the context of market rates and the current debt portfolio.

6.3 Against this background, caution will be adopted with the 2011/12 treasury operations.

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

6.6 <u>Gross v Net Debt Position</u>
It can be seen below in table 6.6 the difference between the gross and net debt positions of the Authority is affected by levels of cash balances held. The level of balances have been identified as pertaining to a number of scheduled and general reserves whilst also recognising the balances held in respect of the Pension Fund. In recognition of current conditions and in line with good Treasury Management practice these levels are being managed as outlined in 6.1 above.

Table 6.6

Comparison of average gross debt and average net debt at year end	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	actual	**probable**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Actual external debt (gross)	349,011	343,053	336,062	331,856	326,737	323,075
Cash balances	133,706	127,493	119,050	111,500	106,600	101,700
Net debt	215,305	215,560	217,012	220,356	220,137	221,375

6.7 <u>Policy on borrowing in advance of need</u>
The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

7 Debt Rescheduling

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

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

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

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

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

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

7.6 Not withstanding the above it is envisaged that there will be very limited if any debt rescheduling opportunities in 2011/12. All rescheduling decisions will be reported to the Cabinet Member for Finance at the quarterly report following its action.

8 Annual Investment Strategy

8.1 <u>Investment policy</u>

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

Regulations 2004 SI 1010(W.107). The Council's investment priorities are: -

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

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

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

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

8.1.4 Amendments to arrangements/limits and criteria detailed in Appendix C may be made by the Head of Finance and advised to the Cabinet Member for Finance in the quarter following its action. Attached at Appendix G is the counterparty list of UK financial institutions that satisfy the minimum credit criteria that the Council can currently lend to as at 28th January 2011.

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

8.1.6 It is anticipated that the Council will continue to hold externally and internally managed funds during 2011/12 ensuring a suitable spread of investment risks. The performance of the investments for both external funds and internal funds will be reported to the Cabinet Member for Finance in the quarterly report. The Council has fixed benchmarks against which investment performance will be measured, i.e. the three month and 7 day LIBID rate.

8.1.7 Interest Rate Outlook:
Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in quarter 3 of 2011 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) are as follows: -

- **2011** 0.50%
- **2012** 1.00%
- **2013** 2.25%
- **2014** 3.25%

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

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

For 2011/12 the Council has budgeted for an average investment return of 0.81% on its internally managed investment portfolio. This is based on the following assumption about future interest rates:

	Mar 2011 %	Jun 2011 %	Sep 2011 %	Dec 2011 %	Mar 2012 %	Jun 2012 %	Sep 2012 %	Dec 2012 %	Mar 2013 %	Jun 2013 %
Base Rate	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.25	2.75

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

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

8.2 <u>Creditworthiness Policy</u>

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

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

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

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

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list

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

8.3 <u>Country Limits</u>

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

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

8.4 <u>Policy on the use of external advisers</u>
The Council uses the services of an external Treasury Management adviser.

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

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

8.5 <u>Scheme of Delegation</u>

(i) Full council

- receiving and reviewing reports on Treasury Management policies, practices and activities
- approval of annual strategy
- approval of/amendments to the organisations adopted clauses, Treasury Management policy statement and Treasury Management practices
- budget consideration and approval
- approval of the division of responsibilities

(ii) Cabinet Member for Finance/ Performance and Finance Overview & Scrutiny board

- receiving and reviewing regular monitoring reports
- reviewing the Treasury Management policy and procedures

(iii) Section 151 Officer

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

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

9 Minimum Revenue Provision Policy Statement

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

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

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

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

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

The options in detail appear at Appendix F.

9.5 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess the MRP for 2011/12 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act.

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

10 Legal Implications

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

11 Recommendation

11.1 That the:

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

be approved

Contact officer:	Mr Jeffrey Dong, Chief Treasury & Technical Officer
☎:	01792 636934
Background papers:	The revised CIPFA Treasury Management Code of Practice 2009 The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2009

Treasury Management – Glossary of Terms

Annualised Rate of Return	Represents the average return which would have been achieved each year.
Authorised Limit ***(can also be considered as the affordable borrowing limit)***	The authorised limit must be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes. It is the expected maximum borrowing need, with some headroom for unexpected movement.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Basis Points (bp)	A basis point is 0.01 of 1% (100 bp = 1%)
Borrowing	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- • Borrowing repayable with a period in excess of 12months • Borrowing repayable on demand or within 12months
Capital Expenditure	The definition of capital expenditure starts with all those items which can be capitalised in accordance with the Statement of Recommended Practice (SORP). To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for current and future years are calculated in a manner consistent with this definition.
Capital Financing Charges (see financing costs also)	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
Capital Financing Requirement	The Capital Financing Requirement is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
CIPFA	The Chartered Institute of Public Finance and Accountancy. One of the leading professional accountancy bodies in the UK and the only one which specialises in the public services.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Rating	This is a scoring system that lenders issue people with to determine how credit worthy they are.

	The Credit Rating components are as follows: 1. The AAA ratings through to C/D are long-term rating definitions and generally cover maturities of up to five years, with the emphasis on the ongoing stability of the institution's prospective financial condition. AAA are the most highly rates, C/D are the lowest. This Council does not invest with institutions lower than AA- for investments over 364 days 2. F1/A1/P1 are short-term rating definitions used by Moody's, S&P and Fitch Ratings for banks and building societies based on their individual opinion on an institution's capacity to repay punctually its short-term debt obligations (which do not exceed one year). This Council does not invest with institutions lower than F1/A1/P1 for investments under 364 days.
Debt	For the purposes of the Code, debt refers to the sum of borrowing (see above) and other long-term liabilities (see below). It should be noted that the term borrowing used with the Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.
Discounts	Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.
Financing Costs	The financing costs are an estimate of the aggregate of the following:- • Interest payable with respect to borrowing • Interest payable under other long-term liabilities • Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers (premiums and discounts) • Interest earned and investment income • Amounts required in respect of the minimum revenue provision plus any additional voluntary contributions plus any other amounts for depreciation/impairment that are charged to the amount to be met from government grants and local taxpayers
Financial Reporting Standards (FRSs)	These are standards set by governing bodies on how the financial statements should look and be presented.
Investments	Investments are the aggregate of:- • Long term investments • Short term investments (within current assets)

	• Cash and bank balances including overdrawn balances From this should be subtracted any investments that are held clearly and explicitly in the course of the provision of, and for the purposes of, operational services.
IMF	International Monetary Fund
LOBO (Lender's Option/ Borrower's Option	Money Market instruments that have a fixed initial term (typically one to ten year) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.
London Inter-Bank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Managed Funds	<u>In-House Fund Management</u> Surplus cash arising from unused capital receipts can be managed either by external fund managers or by the Council's staff in-house. The in-house funds are invested in fixed deposits through the money markets for periods up to one year. <u>Externally Management Funds</u> Fund managers appointed by the Council invest surplus cash arising from unused capital receipts in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a higher rate of earnings on the managed funds than would be otherwise obtained.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision (MRP)	The amount required by statute to be principal repayment each year.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two year time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	Consists of financial institutions and deals in money and credit. The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephone one.
Net Borrowing	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).

Net Revenue Stream	Estimates for net revenue stream for current and future years are the local authority's estimates of the amounts to be met from government grants and local taxpayers.
Operational Boundary	This is based on expectations of the maximum external debt of the authority according to probable not simply possible – events and being consistent with the maximum level of external debt projected by the estimates. It is not a limit and actual borrowing could vary around this boundary for short periods.
Other Long Term Liabilities	The definition of other long term liabilities is the sum of the amounts in the Council's accounts that are classified as liabilities that are for periods in excess of 12months, other than borrowing (see definition above).
Premature Repayment of Loans (debt restructuring/rescheduling)	A facility for loans where the Council can repay loans prior to the original maturity date. If the loan repaid has a lower interest rate than the current rate for a loan of the same maturity period the Council can secure a cash discount on the repayment of the original loan. If the loan replaced has a higher rate of interest than the current rate for a loan of the same maturity period, a cash penalty is payable to the lender.
Premia	Where the prevailing current interest rate is lower than the fixed rate of a long term loan, which is being repaid early, the lender can charge the borrower a premium. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.
Prudential Code	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
Public Works Loan Board (PWLB)	A Government agency which provides loans to local authorities. Each year, it issues a circular setting out the basis on which loans will be made available. Loans can be either at a fixed rate or on a variable rate basis. They can be repaid on either an annuity, equal instalment of principal or maturity basis. The interest rate charged is linked to the cost at which the Government itself borrows.
Range Trade Accrual	A Callable Range Accrual is so called because it is callable or cancellable by the bank after the initial period, as above. However, where it differs, is that interest accrues only as long as Libor (London Interbank Offer Rate, or another independently derived and published benchmark rate) stays within a pre-agreed range. The lender can choose the range, the non-call period, the Libor they wish to use, the call periods and the potential return they wish to receive. The bank has the right to cancel this trade after the first 3 months, and every 3 months thereafter. With a range trade, the lender is backing his judgement on interest rate movements and

	in exchange for that can achieve a significantly enhanced return. This is done as part of portfolio management. The risk of rates going above Libor on a small part of the portfolio (and therefore none, or little payment on a range accrual) will be offset by the fact that the rest of the portfolio will be returning more than expected. The key risk to a callable range accrual is obviously that the contractual Libor rate goes outside the specified range. It is possible to mitigate this risk by analysing the historical behaviour of any specified Libor relative to base rate. By taking a view on expected base rate (which is done on all deposits), a lender can minimise exposure, and choose a range to match his risk appetite.
Risk	<u>Counterparty Credit Risk</u> The risk that a counterparty defaults on its obligations. <u>Inflation Risk</u> The risk that growth in the Authority's investment income does not keep pace with the effects of inflation on its expenditure. <u>Interest Rate Risk</u> The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council's finances. <u>Liquidity Risk</u> The risk that cash will not be available when it is needed. <u>Operational Risk</u> The risk of loss through fraud, error, corruption, system failure or other eventualities in Treasury Management dealings, and failure to maintain effective contingency management arrangements. <u>Refinancing Risk</u> The risk that the Authority is unable to replace its maturing funding arrangements on appropriate terms.
Set Aside Capital Receipts	A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.
Snowball	A Snowball deposit takes a 'bearish' view on rates, i.e. that rates are going to fall faster (or rise slower) than the market expects. If this view proves correct, the interest coupon will increase or '*snowball*'. The snowball can be a useful tool for protecting a portfolio against falling cash yields. The coupon for the first period is set at a fixed level on the trade date. Subsequent coupons then increase (or decrease) depending on how rates have actually moved over time, in comparison to a 'strike' level, which is also determined on the trade date. The lender can choose the initial coupon, strike levels, and as for the Callable Range Accrual; the non-call period, the rate you wish to use and the call periods (snowballs may be issued as either callable or non-callable). Note that the coupon amount is determined at each payment date, rather than accruing on a daily basis.

	To illustrate how this works, consider the following (hypothetical) example: Libor is currently at 6% and the market expects rates to remain there *but* you believe rates will fall to 5.50%. You invest in the following snowball deposit paying you an initial Coupon of 7% for 3 months. Subsequent coupons are calculated as follows every quarter: Previous Coupon + 6.25% - Libor (where 6.25% is your chosen strike level) So let's consider what happens for the next coupon if Libor does fall to 5.50%. It would be: 7% + 6.25% - 5.50% = 7.75%. On the other hand, if Libor instead rises to 6.50% the coupon would be: 7% + 6.25% - 6.50% = 6.75%. So the coupon rises if Libor falls below your strike level or falls if Libor rises above the strike. To complete the picture and to move on to the third coupon, the calculation, taking the first of the above alternatives, would be: 7.75% + 6.25% - Libor. If Libor fixes below 6.25%, the coupon continues to rise, or snowball. The key risk to a snowball is that the specified Libor rate goes against the interest view of the lender. If this scenario continues through many call periods, the rate may snowball in reverse, or melt away. There would be an opportunity to reschedule the loan, but this would probably be at a punitive rate if rates were expected to go with the borrowers. As with range trade accruals, the risk of rates going above Libor on a small part of the portfolio (and therefore reduced payment on a snowball), will be offset by the fact that the rest of the portfolio will be returning more than expected.
SORP	Statement of Recommended Practice, published by CIPFA (Local Authority Accounting Body). This sets out guidelines regarding the Council's financial matters.
Specified/Non Specified investments	Specified investments are sterling denominated investments for less than 364 days as identified in Appendix A in line with statutory investment regulations. Non- specified investments are all other investments identified in Appendix A in line with statutory investment regulations.
Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank and World Bank. As with Government bonds (Gilts) they are regarded as the safest bond investments with a high credit rating.
Temporary Borrowing and Investment	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
Treasury Management	Treasury Management has the same definition as in CIPFA's code of Practice of Treasury Management in the Public Services. "The management of the organisation's cash flows its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Yield Curve	The line resulting from portraying interest rate graphically for a series of periods, e.g. 7days, 1month, 3, 6, 9, and 12months. When longer-term interest rates are higher than short-term rates the yield curve slopes upwards and is described as positive. When the opposite prevails the yield curve is referred to as inverse.

1 Economic Background

1.1 Introduction

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May. A second crisis, this time over Ireland, is currently in progress as at November 2010.

The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for anaemic (but not negative) growth in 2011 in the western world.

1.2 UK Economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a negative trend during the summer and autumn of 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.

Economic Growth – GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. The first estimate of +0.8% for quarter 3 was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

Unemployment – the trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which are likely to be the start of a new trend for some years ahead of rising unemployment.

Inflation and Bank Rate – CPI has remained high during 2010. It peaked at 3.7% in April and has gradually declined to 3.1% in September (RPI 4.6%). Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years after another rise back up to about 3.5% by the end of 2010.

The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. However, major expectation that there could be a second round of quantitative easing in late 2010 or early 2011, to help support economic growth, have evaporated after the surprises of the Q3 GDP figure of +0.8% and the November Inflation Report revising the forecast for short term inflation sharply upwards.

Sector's view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and PWLB rates.

1.3 Treasury Advisor's Forward View

It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in our major trading partners - the US and EU
- the danger of currency war and resort to protectionism and tariff barriers if China does not address the issue of its huge trade surplus due to its undervalued currency
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential for more quantitative easing, and the timing of this in both the UK and US, and its subsequent reversal
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Appendix C

1. Investment Criteria for Specified and Non Specified Investments

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

1.1.1 <u>Specified Investments</u>:

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

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

1.1.2 <u>Non-Specified Investments</u>:

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

Instrument	Min Credit Criteria	Use	Maximum Period	Maximum Investment
Term deposits – UK government (with maturities in excess of 1 year)		In-house	5 years	£30M
Term deposits – other Local Authorities (with maturities in excess of 1 year)		In-house	5 years	£15M with each counterparty
Certificates of deposits issued by banks and building societies covered by UK government guarantee	Short-term F1,P1,A1 Long-term AA-	Fund managers/ in-house	See 2 and 3 below	See 2 and 3 below/£15m with each counterparty

Certificates of deposits issued by banks and building societies covered by UK government guarantee	Short-term F1,P1,A1 Long-term AA-	Fund managers/in house	See 2 and 3 below	See 2 and 3 below/£15m with each counterparty
UK Government Gilts	-	Fund Managers/in house	See 2 and 3 below/5 years	See 2 and 3 below /£15M
Treasury Bills	-	Fund Managers/in house	See 2 and 3 below/5 years	See 2 and 3 below /£15M
Term deposits – banks and building societies (with maturities in excess of 1 year)	Short-term F1,P1,A1 Long-term AA-, or UK nationalised banks	In-house	5 years	£15M with each counterparty
Certificates of deposits issued by banks and building societies	Short-term F1,P1,A1 Long-term AA-,	fund managers/in -house	10 years	See 2 and 3 below/£15M with each counterparty
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers/in house	10 years	See 2 and 3 below/£15M with each counterparty
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£15M with each counterparty and See 2 and 3 below
Bonds issued by a financial institution which is guaranteed by the UK government	-	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£15M with each counterparty See 2 and 3 below
Sovereign bond issues (i.e. other than the UK govt)	AAA	In- house Fund Managers	5 years 10 years	£15M with each counterparty See 2 and 3 below
Corporate Bonds : [under SI 1010 (W.107)]	Long-term AA-	In- house Fund Managers	5 years 10years	£15M with each counterparty See 2 and 3 below
Gilt Funds and Bond Funds	Long-term AA-	In- house Fund Managers	5 years 10years	£15M See 2 and 3 below
Money Market Funds	AAA	In- house Fund Managers	n/a n/a	£15M See 2 and 3 below
Property funds	-	Fund managers	n/a	£15M See 2 and 3 below
Floating Rate Notes	Long-term AA-	Fund managers	10 years	See 2 and 3 below
Treasury Bills	N/A	Fund Managers	10 years	See 2 and 3 below

Local authority mortgage guarantee scheme	Short-term F1,P1,A1 Long-term AA-,	In-house	10 years	£15m with each counterparty
Fixed term deposits with variable rate and variable maturities				
1. Callable deposits	Short-term F1,P1,A1 Long-term AA-,	In-house and fund managers	5/10 years	£15m with each counterparty /see 2 and 3 below
2. Range trade accrual (see glossary)	Short-term F1,P1,A1 Long-term AA-,	In-house and fund managers	5/10 years	£15m with each counterparty /see 2 and 3 below
3. Snowballs (see glossary)	Short-term F1,P1,A1 Long-term AA-,	In-house and fund managers	5/10 years	£15m with each counterparty /see 2 and 3 below

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

1.3 The Council uses a combination of Fitch, Standard & Poor and Moody's (credit rating agency) ratings to derive its criteria. All credit ratings will be monitored daily. The Council is alerted to changes in ratings through its use of its adviser's creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

2. **Investment Criteria - Invesco**

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

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

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

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

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

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

3. Investment Criteria – Investec

Note – Investec currently have no Council assets under management.

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

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

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

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

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

Fitch International Long-Term Credit Ratings

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

Investment Grade	**Definition**
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.
Speculative Grade	**Definition**
BB	Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.
B	Highly speculative • For issuers and performing obligations, 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment • For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of 'RR1' (outstanding)

CCC	For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions. • For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of 'RR2' (superior), or 'RR3' (good) or 'RR4' (average)
CC	For issuers and performing obligations, default of some kind appears probable. • For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of 'RR4' (average) or 'RR5' (below average)
C	• For issuers and performing obligations, default is imminent • For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of 'RR6' (poor)
RD	Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honour other classes of obligations.
D	Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following: • Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation; • The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor; • The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation

Fitch International Short-Term Credit Ratings

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

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

Approved Countries for Investment

AAA

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

AA+

- Australia
- Belgium
- Spain

AA

- Hong Kong
- Japan
- Kuwait
- Quatar
- UAE

AA-

- Italy
- Portugal
- Saudi Arabla

APPENDIX F

MINIMUM REVENUE PROVISION

1. New Government Guidance

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

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

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

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

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

Option 1: Regulatory Method

Under the previous MRP regulations, General Fund MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This option is available for the General Fund share of capital financing requirement which relates to capital expenditure incurred prior to 1 April 2008. It may also be used for new capital expenditure up to the amount which is deemed to be supported by the Welsh Assembly Government annual supported borrowing allocation. The use of the commutation adjustment to mitigate the MRP charge is also allowed to continue under this option.

Option 2: Capital Financing Requirement Method

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

Option 3: Asset Life Method.

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

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

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

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2

- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2

There are two methods of calculating charges under option 3:

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

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

A – B divided by C

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

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

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

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

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

Under both options, the authority may make additional voluntary revenue provision and this may require an appropriate reduction in later years' MRP. In addition adjustments to the calculation to take account of repayment by other methods (e.g. application of capital receipts) should be made as necessary.

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

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

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

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

The guidance also provides the authority with discretion to apply Options 3 or 4 to all capital expenditure whether or not supported and whenever it is incurred. Any capitalised expenditure incurred after 1 April 2008 which gives rise to an increase in the GF CFR should be repaid by using option 3 as adapted by paragraphs 23 and 24 of the guidance.

Appendix G

Active Internal Credit UK Counterparty List (as at 28th January 2011)

Bank of New York Mellon	UK	Bank
Bank of Scotland	UK	Bank
Barclays	UK	Bank
Citibank International	UK	Bank
Clydesdale	UK	Bank
Credit Suisse International	UK	Bank
HFC Bank Ltd	UK	Bank
HSBC	UK	Bank
Lloyds TSB	UK	Bank
MBNA Europe	UK	Bank
National Westminster	UK	Bank
Nationwide	UK	BS
Royal Bank of Scotland	UK	Bank
Santander (ex Abbey and A&L)	UK	Bank
Standard Chartered Bank	UK	Bank
Sumitomo Mitsui Banking Corporation	UK	Bank
UBS Ltd	UK	Bank

Housing Revenue Account – Revenue Budget 2011/12 and Capital Budget 2011/12 to 2013/14

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

Extraordinary Council – 28th February 2011

HOUSING REVENUE ACCOUNT – REVENUE BUDGET 2011/12 AND CAPITAL BUDGET 2011/12 TO 2013/14

Summary	
Purpose:	This report proposes a Revenue Budget 2011/12, a Capital Budget 2011/12 to 2013/14 and a rent increase for properties within the Housing Revenue Account.
Policy Framework:	None.
Reason for Decision:	To agree a revenue and capital budget as indicated and a rent increase for 2011/12 and to comply with Financial Procedure Rule 7 (FPR7).
Consultation:	Cabinet Members, Finance, & Legal

BACKGROUND

The setting of future revenue and capital budgets has to take account of the following issues and factors:-

- the requirement to achieve/work towards achieving the Welsh Housing Quality Standards (WHQS);
- the effects and restrictions of the housing subsidy system;
- future income and expenditure trends on the housing revenue account;
- delivering service efficiencies;
- increases to guideline rents advised by the WAG;
- the effect on tenants of rent increases;
- the ability to deliver significant increases in the programme of capital work;

The proposals in this report are based on the objective of maximising the resources available for investment in the housing stock to make progress in achieving the WHQS.

1. Projected Revenue Outturn 2010/11

1.1 Table A in the Appendix shows a summary Housing Revenue Account (HRA) for the expected outturn for 2010/11 and proposed budget for 2011/12.

1.2 The forecast outturn of income and expenditure anticipates savings and underspends against the original budget of £2.4m.

1.3 The main projected variances from the original budget for 2010/11 are:

- A projected underspend on staffing budgets of £600k. This is due to there being no pay award, planned delays in filling posts, staffing reviews and proactive management keeping costs to a minimum.
- A projected underspend on repairs and maintenance of £500k, mainly due to a reduction in day to day maintenance requests.
- A minor estimated reduction in the housing subsidy payable to the Welsh Assembly Government of £150k.
- A forecast increase in net rent income of £600k, partly as a result of reduced voids, reduced arrears and a reduced bad debt provision.
- A minor increase in the contribution to the capital programme of £240k;
- No requirement for the contingency budget of £400k;
- An increase in the repatriated surplus from CBS of £400k as a result of increased performance and efficiency savings;

There is also an increase in maintenance schemes funded by the approved carry forward of the 2009/10 surplus of £740k

2. Revenue Budget 2011/12

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

2.2 The calculation of the amount of negative housing subsidy payable by local authorities is made by the WAG. The calculation is based on a notional Housing Revenue Account (HRA) which includes an assumed level of rent known as the guideline rent. The draft assumption initially issued by the WAG in respect of 2011/12 would have resulted in an average rent increase next year of £3.96 per week (6.2%). Following consultation with local authority representatives, the final guideline increase was reduced, and now results in an average rent increase of £3.17 per week (4.95%).

2.3 The notional HRA and the guideline rents are "theoretical" and authorities are free to charge higher or lower real rents. In practice this freedom is highly constrained as detailed below:-

- If rents are increased by more than the guideline, the additional amount of Housing Benefit payable by the Department of Work and Pensions (DWP) would be clawed back. This means that the authority only retains about 30% of the increase.

- If rents are increased by less than the guideline, the Council would not be maximising the amount of DWP funding available in the form of Housing Benefits. For example, a rent increase which is £1 per week less than the guideline would result in reduced income of £700k. As about 70% of rent income is paid by the DWP in the form of Housing Benefits then £490K of the £700K is the opportunity cost of DWP subsidy foregone.

2.4 To ensure that the authority and tenants maximise the benefit from the subsidy system, and that the maximum resources are available to invest in meeting the WHQS, it is recommended that the WAG guideline rent increase be adopted.

2.5 The proposed budget for 2011/12 is based on the following assumptions:

- An average rent increase of 4.95%, in line with the WAG guideline;
- An increase in management and maintenance allowances of 8.8%, again in line with the WAG guidance ;
- The effect of the above two assumptions is to increase the resources available to the HRA by approximately £2.5m next year;
- A provision of £200k for possible inflationary increases such as a pay increase for low earners and increasing prices for utilities;
- Most of the underspends identified in the current year and explained in Section 1.3 are permanent;
- The projected underspend of £2.4m in the current year will be carried forward and added to next year's capital programme;

2.6 Based on these assumptions, the following is a summary of the main increases or decreases to 2010/11 budgets that form the proposed 2011/12 HRA budget. The main effect is that these changes enable an additional contribution to maintenance and improvements of almost £7m.

Item	£000
Additional rent income based on a 4.95% increase	-2,530
Additional income from other charges	-100
Use of the forecast 10/11 Underspend	-2,400
Net effect of underspends identified this year	-1,470
Increase in the use of balances	-450
Increased investment in maintenance (revenue and capital)	6,950

There is also a projected reduction in debt charges mainly due to a lower interest charge due to lower debt outstanding and lower interest rates, but this will be offset by a corresponding increase in the subsidy payable to the WAG.

3. Fees, Charges and Allowances

3.1 General fees, charges and allowances are normally increased either in line with the Authority's own inflation assumption, or in line with the agreed rent increase. If the recommendations relating to the rent increase are approved then these rent related items will increase by 4.95% (or in line with the final guideline rent increase issued by the WAG), and other net charges by 3%.

4. Projected HRA Capital Outturn 2010/11

4.1 The original approved capital programme for this year was £13.5m. This has been increased mainly due to slippage from 2009/10 to a projected spend this year of £15.464m. In addition there is slippage into next year's programme estimated at £2.422m, primarily due to delays occurring from ongoing consultation and procurement processes which have now been rectified. Detail of the schemes is shown in Table C in the appendices.

4.2 This year's projected spend will be funded by £9m MRA, capital receipts from council house sales of £2m, and £4.5m from the HRA revenue account. The expenditure which is projected to slip in to next year will be funded from capital receipts.

5. HRA Capital Programme 2011/12 – 2013/14

5.1 This section details the financial resources available for capital investment schemes to HRA properties over the next 3 financial years from 2011/12 to 2013/14. The investment schemes are being targeted towards achievement of the Welsh Assembly Government's Welsh Housing Quality Standard (WHQS).

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

5.3 The table below identifies the projected funding available for capital investment for the next 3 financial years (at current prices). It should be noted that the MRA figure for 2011/12 (and future years – see below) is currently provisional subject to the confirmation of the WAG (which is expected in March). Once the final figure is provided the capital programme will be amended accordingly.

	2011/12 £'000s	**2012/13 £'000s**	**2013/14 £'000s**
MRA	9,000	9,000	9,000
Capital Receipts	0	0	0
Revenue Funding	7,150	7,500	7,500
Balances	3,850	1,000	1,000
Total	**20,000**	**17,500**	**17,500**

5.4 As explained in Section 2, it is proposed to increase the funding from the revenue account. An assumption is made at this juncture that the level of Revenue Funding can be maintained over the following two years. This enables an increase of £6.5m compared to the original programme for the current year. It should be noted that the Council's resources are still substantially short of those required to achieve WHQS.

5.5 It should also be noted that this represents a substantial increase to the existing capital programme. Whilst this additional investment is welcome, the procurement and delivery of it will be challenging, and officers will endeavour to maximise spend in year and minimise, wherever possible, slippage into future years. Any funding not utilised in any particular year will be available for use in future years.

5.6 The proposed investment schemes are designed and intended to contribute towards elements of the WAG's Welsh Housing Quality Standard. The WHQS is a target standard for all social housing in Wales. The current policy agreed by Cabinet is to target resources at sustaining the structural integrity of the dwellings and where possible, to improve their thermal efficiency.

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

6 Financial Implications

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

7 Legal Implications

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

8. Recommendations

The following budget proposals be approved:

a) Rents be increased in line with the Wales Assembly Government guideline as detailed in section 2.

b) The increase for fees, charges and allowances as outlined in section 3

c) The revenue budget and capital programme as detailed in sections 2 and 5, and the Appendix.

Appendix	Table A: Summarised HRA 2010/11 to 2011/12 Table B: Movement in Balances 2010/11 to 2011/12 Table C: Projected HRA Capital Outturn 2010/11 Table D: Capital Programme 2011/12 – 2013/14

Background Papers: **None**

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

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

Appendix

Table A: Summarised HRA 2010/11 to 2011/12

Classification	Original Budget 2010/11	Expected Outturn 2010/11	Original Budget 2011/12
	A	B	C
	£'000	£'000	£'000
Expenditure			
Management and Maintenance	30,447	29,797	30,179
Capital Charges	5,390	5,390	5,100
Revenue Funding for capital prog.	4,500	4,490	11,000
Negative subsidy	6,152	6,002	6,040
Total Expenditure	**46,489**	**45,679**	**52,319**
Income			
Rents and other income	45,089	45,539	47,669
Use of balances	1,000	1,740	3,850
Corporate building transfer	400	800	800
Total Income	**46,489**	**48,079**	**52,319**
Net Deficit (- surplus)	**0**	**-2,400**	**0**

Table B: Movement in Balances 2010/11 to 2011/12

Description	Original 2010/11	Projected 2010/11	Estimate 2011/12
Balance at 1st April	9,513	11,207	11,867
Use of balances	-1,000	-1,740	-3,850
HRA deficit			
HRA surplus		2,400	
Forecast balance 31st March	**8,513**	**11,867**	**8,017**

The increase in reserves at 1st April 2010 between original and projected is as a result of under-spends detailed in the outturn report to Members during July 2010.

Table C: Projected HRA Capital Outturn 2010/11
Detail of schemes

Programme	2010/11 Projected Spend £'000s	Slippage to 2011/12 £'000s
Repairs/Improvements PRC Property Schemes	579	450
Window Replacement Schemes	1,210	0
Wind & Weatherproofing Schemes	3,155	1,030
Refurbishment Programme	882	342
Regeneration Schemes	917	0
Security Measures	704	0
Lift Refurbishment Programme	412	400
Energy Efficiency Schemes	4,248	0
Landscaping/Area Enhancement Schemes	241	200
Adaptations Programme	3,010	0
Other Schemes	106	0
Total	**15,464**	**2,422**

Table D: Capital Programme 2011/12 – 2013/14
Detail of schemes

Schemes	2011/12	2012/13	2013/14
Good State of Repair	**£'000s**	**£'000s**	**£'000s**
Wind and Weatherproofing (WWP) Mayhill	650	0	0
Wind and Weatherproofing (WWP) Stembridge Ave, Blaenymaes	160	0	0
Wind and Weatherproofing (WWP) Maes Glas Flats	850	850	0
Wind and Weatherproofing (WWP) Conway Road, Penlan	750	150	0
Wind and Weatherproofing (WWP) West Cross	650	200	0
Wind and Weatherproofing (WWP) New Street Flats	0	200	100
Wind and Weatherproofing (WWP) Bonymaen	0	0	500
Wind and Weatherproofing (WWP) Gower	45	0	0
Wind and Weatherproofing (WWP) Heol Gwyrosydd	700	700	700
Wind and Weatherproofing (WWP) Winch Wen	700	700	650
Wind and Weatherproofing (WWP) Gorseinon	300	0	0
Wind and Weatherproofing (WWP) Croft Street, Dyfatty	0	0	900
Wind and Weatherproofing (WWP) Matthew Street, Dyfatty	100	1,100	1,100
Wind and Weatherproofing (WWP) Jeffreys Court, Penlan	950	100	0
Wind and Weatherproofing (WWP) Clyne Court	100	1,300	1,300
General Enveloping	0	0	1,535
Repairs to British Iron & Steel Federation (BISFs) Houses Penlan	1,000	960	950
Repairs to Pre-cast Reinforced Concrete (PRCs) Houses	400	450	0
Repairs to Wimpey No Fines Houses – Clase	850	700	0
Repairs to Wimpey No Fines Houses – Blaenymaes	750	700	700
Repairs to Wimpey No Fines Houses - Trallwn	750	700	700
Re-Roofing - Bonymaen	400	0	0
Re-Roofing - Various	0	300	300
Window Replacement - Various Locations	80	0	0
Door Renewal Various - Locations	1,100	1,100	1,100
Structural Repairs	310	200	200
Safe and Secure			
Smoke Alarms and Carbon Monoxide Detectors	150	200	200
Fire Doors Communal – High Rise Blocks City Wide	300	100	0
Fire Doors Individual – High Rise Blocks City Wide	650	200	0
Fire Safety - Sheltered Complexes City Wide	310	0	0
Fire Safety General - Various Locations	110	210	210
Arson Reduction General Alterations - Various Locations	15	50	50
Rewiring + Contingency - Various Locations	950	950	950
Rewiring Communal Blocks	0	150	150
Adequately Heated			
Boiler Replacement – Various Locations	2,200	2,000	2,000
Heating Upgrades – Various Locations	200	200	200
Energy Efficiency Measures and Energy Grant Support - Various	750	325	300
Located In Attractive/Safe Environments			
Meter Boxes – Various Locations	70	5	5
Meeting Requirements of the Household			
Adaptation	2,700	2,700	2,700
Total	**20,000**	**17,500**	**17,500**

HRA 3 Year Programme Capital Programme

Scheme Description

Wind and Weatherproofing
Wind and Weatherproofing - to repair and upgrade the external fabric of homes to maintain structural integrity, improve weather protection and thermal efficiency. Work typically includes wall tie renewal, application of insulated render, alteration or improvements to roofs and rainwater goods and new front and back doors.

Repairs to British Iron & Steel Federation (BISFs) Houses
BISF houses are of a steel frame construction built in the 1950s. The scheme is to repair and maintain structural integrity, improve thermal efficiency and weather protection. The specification of work includes roof renewal, insulated render system and door renewal.

Repairs to Pre-cast Reinforced Concrete (PRCs) Houses
Constructed with concrete frame and panels the repair scheme is designed to protect the structural integrity of the dwellings, improve thermal efficiency and improve the weather protection. The repair scheme includes concrete repair where necessary, application of insulated render, roof repairs and door renewal.

Repairs to Wimpey No Fines Houses
Wimpey No Fines are properties built with solid concrete walls and the repair scheme addresses structural cracking where present, the application of insulated render to improve thermal efficiency and weather protection, roof repairs and door renewal.

Re-Roofing
Re-Roofing includes repairing the roof structure and replacing the roof covering to ensure long term weather protection.

Window Replacement - Various locations
The scheme replaces windows with uPVC double glazed units to improve thermal efficiency and security.

Door Renewal - Various locations
Doors will be renewed with uPVC/Composite type units with secure locks and hinges. The door will improve weather protection, security and thermal efficiency.

Structural Repairs
Structural Repairs treats retaining wall failure or disrepair, subsidence cases, and other structural elements that are considered to be in need of repair or renewal.

Smoke Alarms and Carbon Monoxide Detectors Renewal
Hard wired smoke alarms and carbon monoxide detectors in homes are renewed to ensure uninterrupted service.

Fire Doors to Communal Areas – High Rise Blocks City Wide
Communal fire doors in highrise blocks will be renewed to improve fire protection and fire safety for residents.

Fire Doors Individual – High Rise Blocks City Wide
The fire doors to individual flats will be renewed with 60 minute fire doors to increase fire protection and fire safety for each home.

Fire Safety – Sheltered Complexes City Wide
A range of fire stopping and fire separation work will be repaired and improved in sheltered housing across the City & County of Swansea.

Fire Safety General - Various Locations
Fire stopping and fire separation improvements will be undertaken to medium and low rise blocks across the city. Work will include improved fire doors

Arson Reduction General Alterations – Various Locations
Work will be to carry out minor alterations to the layout of communal areas in blocks of flats to provide protection from fire and minimise the likelihood of 'opportunist arson'. The work follows recommendations from a joint assessment by the Fire Service's Arson Reduction Team and Council Officers

Rewiring and Contingency – Various Locations
Properties will be rewired where the existing installations are approximately 30 years old or where they have failed an electrical inspection.

Rewiring Communal Blocks
Blocks of flats will have communal areas rewired where the existing installations are approximately 30 years old or where they have failed an electrical inspection.

Boiler Replacement – Various Locations
Gas boilers will be renewed as part of a long term programme aimed at improving the efficiency and reliability of heating systems.

Heating Upgrades – Various Locations
The scheme is designed to provide fuel switching to council homes e.g. coal to gas, storage heaters to gas etc. as well as provide minor improvements to heating systems including time clocks and room thermostats.

Energy Efficiency Measures and Energy Grant Support – Various
There are a range of energy efficiency measures and supporting grants available. Investment is to provide either directly or support to grants for work such as Solar Photovoltaics, Solar Hot water, insulation measures or other energy saving technology that is applicable to homes and which can provide a benefit to tenants.

Meter Boxes – Various Locations
Meter boxes will be renewed to ensure adequate protection and ensure homes are safe.

Adaptations
Funding is for alterations and improvements to council homes for tenants with medical conditions or disabilities.

Statutory Resolution – Resolutions to be made in accordance with the Regulations in the Setting of Council Tax 2011/12

Report of the Section 151 Officer

Extraordinary Council 28th February 2011

STATUTORY RESOLUTION – RESOLUTIONS TO BE MADE IN ACCORDANCE WITH THE REGULATIONS IN THE SETTING OF THE COUNCIL TAX 2011/2012

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

(2) **THAT** it be noted that at its meeting on 9th December 2010 the Council calculated the following amounts for the year 2011/2012 in accordance with Regulations made under Section 33(5) of the Local Government Finance Act 1992 -

a) 87,363 being the amount calculated by the Council, in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) (Wales) Regulations 1995, as amended, as its Council Tax base for the year.

b) Parts of the Council's Area -

Bishopston	1,916
Clydach	2,496
Gorseinon	2,960
Gowerton	1,946
Grovesend	403
Ilston	311
Killay	2,071
Llangennith, Llanmadoc & Cheriton	482
Llangyfelach	942
Llanrhidian Higher	2,260
Llanrhidian Lower	305
Llwchwr	3,138
Mawr	729
Mumbles	9,491
Penllergaer	1,148
Pennard	1,452
Penrice	421
Pontarddulais	2,162
Pontlliw	966
Port Eynon	398
Reynoldston	287
Rhossilli	188
Upper Killay	567

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

(3) **THAT** the following amounts be now calculated by the Council for the year 2011/2012 in accordance with Section 32 to 36 of the Local Government Finance Act 1992 -

(a)	£635,370,481	being the aggregate of the amounts which the Council estimates for the items set out in Sections 32(2)(a) to (d) of the Act.
(b)	£249,974,450	being the aggregate of the amounts which the Council estimates for the items set out in Sections 32(3)(a), 32(3)(c) and 32(3a) of the Act.
(c)	£385,396,031	being the amount by which the aggregate at (3)(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year.
(d)	£298,006,327	being the aggregate of the sums which the Council estimates will be payable for the year into its Council Fund in respect of redistributed non-domestic rates, and revenue support grant less discretionary Non Domestic Rate relief.
(e)	£1,000.31	being the amount at (3)(c) above less the amount at (3)(d) above, all divided by the amount at (2)(a) above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its Council Tax for the year.
(f)	£820,834	being the aggregate amount of all special items referred to in Section 34(1) of the Act.
(g)	£990.91	being the amount at (3)(e) above less the result given by dividing the amount at (3)(f) above by the amount at (2)(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special items relate.

(h) Parts of the Council's Area -

Bishopston	1,006.92
Clydach	1,014.95
Gorseinon	1,017.68
Gowerton	1,008.71
Grovesend & Waungron	1,003.32
Ilston	999.91
Killay	1,003.08
Llangennith, Llanmadoc & Cheriton	1,005.54
Llangyfelach	1,010.02
Llanrhidian Higher	1,033.15
Llanrhidian Lower	1,000.75
Llwchwr	1,014.34
Mawr	1,035.85
Mumbles	1,003.96
Penllergaer	1,022.27
Pennard	1,016.74
Penrice	1,014.66
Pontarddulais	1,027.45
Pontlliw	1,025.36
Port Eynon	1,004.73
Reynoldston	1,018.78
Rhossili	1,003.55
Upper Killay	1,022.66

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

(l) Parts of the Council's Area -

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £	Band I £
Bishopston	671.28	783.16	895.04	1,006.92	1,230.68	1,454.44	1,678.20	2,013.84	2,349.48
Clydach	676.64	789.41	902.18	1,014.95	1,240.49	1,466.03	1,691.59	2,029.90	2,368.21
Gorseinon	678.46	791.53	904.61	1,017.68	1,243.83	1,469.98	1,696.14	2,035.36	2,374.58
Gowerton	672.48	784.55	896.63	1,008.71	1,232.87	1,457.02	1,681.19	2,017.42	2,353.65
Grovesend & Waungron	668.88	780.36	891.84	1,003.32	1,226.28	1,449.24	1,672.20	2,006.64	2,341.08
Ilston	666.61	777.71	888.81	999.91	1,222.11	1,444.31	1,666.52	1,999.82	2,333.12
Killay	668.72	780.18	891.63	1,003.08	1,225.98	1,448.89	1,671.80	2,006.16	2,340.52
Llangennith, Llanmadoc & Cheriton	670.36	782.09	893.81	1,005.54	1,228.99	1,452.44	1,675.90	2,011.08	2,346.26
Llangyfelach	673.35	785.57	897.80	1,010.02	1,234.47	1,458.91	1,683.37	2,020.04	2,356.71
Llanrhidian Higher	688.77	803.56	918.36	1,033.15	1,262.74	1,492.32	1,721.92	2,066.30	2,410.68
Llanrhidian Lower	667.17	778.36	889.56	1,000.75	1,223.14	1,445.52	1,667.92	2,001.50	2,335.08
Llwchwr	676.23	788.93	901.64	1,014.34	1,239.75	1,465.15	1,690.57	2,028.68	2,366.79
Mawr	690.57	805.66	920.76	1,035.85	1,266.04	1,496.22	1,726.42	2,071.70	2,416.98
Mumbles	669.31	780.86	892.41	1,003.96	1,227.06	1,450.16	1,673.27	2,007.92	2,342.57
Penllergaer	681.52	795.10	908.69	1,022.27	1,249.44	1,476.61	1,703.79	2,044.54	2,385.29
Pennard	677.83	790.80	903.77	1,016.74	1,242.68	1,468.62	1,694.57	2,033.48	2,372.39
Penrice	676.44	789.18	901.92	1,014.66	1,240.14	1,465.62	1,691.10	2,029.32	2,367.54
Pontarddulais	684.97	799.13	913.29	1,027.45	1,255.77	1,484.09	1,712.42	2,054.90	2,397.38
Pontlliw	683.58	797.50	911.43	1,025.36	1,253.22	1,481.07	1,708.94	2,050.72	2,392.50
Port Eynon	669.82	781.46	893.09	1,004.73	1,228.00	1,451.27	1,674.55	2,009.46	2,344.37
Reynoldston	679.19	792.39	905.58	1,018.78	1,245.17	1,471.57	1,697.97	2,037.56	2,377.15
Rhossili	669.04	780.54	892.05	1,003.55	1,226.56	1,449.57	1,672.59	2,007.10	2,341.61
Upper Killay	681.78	795.40	909.03	1,022.66	1,249.92	1,477.17	1,704.44	2,045.32	2,386.20
All other parts of the Council area	660.61	770.71	880.81	990.91	1,211.11	1,431.31	1,651.52	1,981.82	2,312.12

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

(4) **THAT** it be noted that for the year 2011/2012 the South Wales Police Authority have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwelling shown below -

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £	Band I £
South Wales Police Authority	107.57	125.49	143.42	161.35	197.21	233.06	268.92	322.70	376.48

(5) **THAT** having calculated the aggregate in each case of the amounts at (3)(I) and (4) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2011/2012 for each of the categories of dwelling shown below –

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £	Band I £
Bishopston	778.85	908.65	1,038.46	1,168.27	1,427.89	1,687.50	1,947.12	2,336.54	2,725.96
Clydach	784.21	914.90	1,045.60	1,176.30	1,437.70	1,699.09	1,960.51	2,352.60	2,744.69
Gorseinon	786.03	917.02	1,048.03	1,179.03	1,441.04	1,703.04	1,965.06	2,358.06	2,751.06
Gowerton	780.05	910.04	1,040.05	1,170.06	1,430.08	1,690.08	1,950.11	2,340.12	2,730.13
Grovesend & Waungron	776.45	905.85	1,035.26	1,164.67	1,423.49	1,682.30	1,941.12	2,329.34	2,717.56
Ilston	774.18	903.20	1,032.23	1,161.26	1,419.32	1,677.37	1,935.44	2,322.52	2,709.60
Killay	776.29	905.67	1,035.05	1,164.43	1,423.19	1,681.95	1,940.72	2,328.86	2,717.00
Llangennith, Llanmadoc & Cheriton	777.93	907.58	1,037.23	1,166.89	1,426.20	1,685.50	1,944.82	2,333.78	2,722.74
Llangyfelach	780.92	911.06	1,041.22	1,171.37	1,431.68	1,691.97	1,952.29	2,342.74	2,733.19
Llanrhidian Higher	796.34	929.05	1,061.78	1,194.50	1,459.95	1,725.38	1,990.84	2,389.00	2,787.16
Llanrhidian Lower	774.74	903.85	1,032.98	1,162.10	1,420.35	1,678.58	1,936.84	2,324.20	2,711.56
Llwchwr	783.80	914.42	1,045.06	1,175.69	1,436.96	1,698.21	1,959.49	2,351.38	2,743.27
Mawr	798.14	931.15	1,064.18	1,197.20	1,463.25	1,729.28	1,995.34	2,394.40	2,793.46
Mumbles	776.88	906.35	1,035.83	1,165.31	1,424.27	1,683.22	1,942.19	2,330.62	2,719.05
Penllergaer	789.09	920.59	1,052.11	1,183.62	1,446.65	1,709.67	1,972.71	2,367.24	2,761.77
Pennard	785.40	916.29	1,047.19	1,178.09	1,439.89	1,701.68	1,963.49	2,356.18	2,748.87
Penrice	784.01	914.67	1,045.34	1,176.01	1,437.35	1,698.68	1,960.02	2,352.02	2,744.02
Pontarddulais	792.54	924.62	1,056.71	1,188.80	1,452.98	1,717.15	1,981.34	2,377.60	2,773.86
Pontlliw	791.15	922.99	1,054.85	1,186.71	1,450.43	1,714.13	1,977.86	2,373.42	2,768.98
Port Eynon	777.39	906.95	1,036.51	1,166.08	1,425.21	1,684.33	1,943.47	2,332.16	2,720.85
Reynoldston	786.76	917.88	1,049.00	1,180.13	1,442.38	1,704.63	1,966.89	2,360.26	2,753.63
Rhossili	776.61	906.03	1,035.47	1,164.90	1,423.77	1,682.63	1,941.51	2,329.80	2,718.09
Upper Killay	789.35	920.89	1,052.45	1,184.01	1,447.13	1,710.23	1,973.36	2,368.02	2,762.68
All other parts of the Council area	768.18	896.20	1,024.23	1,152.26	1,408.32	1,664.37	1,920.44	2,304.52	2,688.60