CHILTERN DISTRICT COUNCIL

King George V House, King George V Road, Amersham,
Buckinghamshire, HP6 5AW
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INVESTORS IN PEOPLE

Resources Overview Committee

Tuesday, 20th January, 2015 at 6.30 pm

Large & Small Committee Room, King George V House, King George V Road, Amersham

R E V I S E D A G E N D A
(Report for Item 6 Included)

1 Evacuation Procedures

2 Minutes *(Pages 5 - 8)*

To sign the Minutes of the meeting held on 2 December 2014.

3 Apologies for Absence

4 Declarations of Interest

5 Forward Plan *(Pages 9 - 10)*

Appendix 1 (Pages 11 - 14)

Appendix 2 (Pages 15 - 20)

Appendix 3 (Pages 21 - 22)

6 Budget 2015/16 ***(Pages 23 - 36)***

7 Capital Programme 2015/16 to 2018/19 *(Pages 37 - 42)*

8 Treasury Management Report - October to December 2014 *(Pages 43 - 46)*

Appendix (Pages 47 - 48)

Support Officer: Mat Bloxham (01494 732143; mbloxham@chiltern.gov.uk)

9 Treasury Management Strategy 2015/16 *(Pages 49 - 50)*

Appendix 1 (Pages 51 - 58)

Appendix A (Pages 59 - 68)

Appendix B (Pages 69 - 74)

Appendix C (Pages 75 - 78)

Appendix D (Pages 79 - 80)

10 Exclusion of the Public

To resolve that under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item(s) of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Act.

11 Private reports (if any)

Support Officer: Mat Bloxham (01494 732143; mbloxham@chiltern.gov.uk)

Note: All Reports will be updated orally at the meeting if appropriate and may be supplemented by additional reports at the Chairman's discretion.

Membership: Resources Overview Committee

Councillors:
A K Bacon
S P Berry
A D Garnett (Chairman)
A J Garth
J L Gladwin (Vice-Chairman)
D G Meacock
D W Phillips
J S Ryman
D Spate
C H Spruytenburg
N Stewert
M Vivis
J F Warder
C J Wertheim
A P Williams

Date of next meeting – Tuesday, 17 March 2015

If you would like this document in large print or an alternative format please contact 01494 732145; email chiefexecs@chiltern.gov.uk

Support Officer: Mat Bloxham (01494 732143; mbloxham@chiltern.gov.uk)

CHILTERN DISTRICT COUNCIL

MINUTES of the Meeting of the
RESOURCES OVERVIEW COMMITTEE
held on **2 DECEMBER 2014**

PRESENT:	Councillor	A D Garnett	- Chairman
	"	J L Gladwin	- Vice Chairman
	Councillors:	A K Bacon	
		S P Berry	
		D G Meacock	
		D W Phillips	
		D Spate	
		J F Warder	
		C J Wertheim	

APOLOGIES FOR ABSENCE were received from Councillors A J Garth, J S Ryman, C H Spruytenburg, N Stewert, M Vivis and A P Williams

ALSO IN ATTENDANCE: Councillors Mrs I A Darby and M Stannard

1 ELECTION OF CHAIRMAN

It was moved by Councillor D W Phillips, seconded by Councillor C J Wertheim and

RESOLVED -

That Councillor A D Garnett be elected Chairman of the Resources Overview Committee for the remainder of the Municipal Year.

2 APPOINTMENT OF VICE-CHAIRMAN

It was moved by Councillor C J Wertheim, seconded by Councillor J F Warder and

RESOLVED -

That Councillor J L Gladwin be elected Vice Chairman of the Resources Overview Committee for the remainder of the Municipal Year.

3 DECLARATIONS OF INTEREST

Councillor J L Gladwin was a Member of the Support Services Policy Advisory Group.

Councillor A K Bacon was a Member of Chesham Town Council.

4 TERMS OF REFERENCE

RESOLVED –

That the Terms of Reference be noted.

5 FORWARD PLAN

Members reviewed the Work Programme and considered potential topics to review from the 28 Day Notice Forward Plan. There was a request for an update on the Duty to Co-operate with Aylesbury Vale District Council with regard to their Local Plan. It was advised that information could be circulated to Members.

There was interest in the Annual Energy Report. It was advised that this was a factual report on performance only but Councillors wanted to know how money was being spent. The report would be available to the Committee if not already being scrutinized by a Policy Advisory Group.

RESOLVED –

That the Work Programme be noted with additional reports being made available if applicable as discussed.

Note: Councillor Stannard entered the meeting at 6.37 pm.

6 DRAFT REVENUE BUDGET 2015/16

The draft revenue budget for 2015/16 was shown in detail in the appendices and tables in the report. The Government Revenue Support Grant was expected to be announced later in December 2014, following the Chancellors Autumn Statement. A further reduction in funding was expected in the future. Members were asked to consider whether to reduce the grant to Town Councils and Parishes in line with the reduction in grant funding.

Councillors asked in particular about the recycling credits listed on page 25. It was explained that recycling credit income was higher than the current year budget and that this was expected to continue. Councillors were concerned that this presentation of a saving would not be available in future years. A Member asked how this payment had been used previously and was advised that it contributed to the prior year underspend which allowed additional money to be put into the pension scheme.

It was noted that staff salaries were not keeping up with inflation along with other costs outlined in the report. It was advised that the current proposed pay deals had been advised in reports to the Personnel Committee and the provisions made were close to the actual proposed pay deal.

Overall the budget was considered to be prudent and affordable. The scale of the future potential budget deficit has been reduced to a manageable level but further savings would still have to be made and were expected in part through joint working.

With regard to the payments to Parishes and Town Councils, it was noted that they had already been warned to expect a reduction in their grant. It was discussed that these cuts would hit some areas harder than others, in particular Chesham Town Council. Other Local Authorities had taken the same steps and some had cut their grant altogether already (including South Bucks District Council). There was general agreement to continue in principle as previously, i.e to reduce the support in line with the reduction in government grant.

That the recommendations contained in the draft Cabinet report be endorsed by the Resources Overview Committee and that the comments of the Committee be forwarded to the Cabinet.

7 TREASURY MANAGEMENT REPORT JULY TO SEPTEMBER 2014

The trend for low interest rates had continued and so the average return on investments was only 0.63%. The strategy of keeping short-term investments was made to allow a transfer to longer term investments once an upturn in interest rates occurred in the future. It was confirmed that a higher rate of interest could be achieved if there was an appetite for greater risk. It was also noted that there had been a successful transfer to a new bank.

RESOLVED

That the draft Cabinet report on treasury management activity in the quarter July to September 2014 be noted.

8 QUARTER 2 PERFORMANCE REPORT 2014/15

The performance of the Council during this period was shown in the tables from page 147 and the key points were highlighted in the report. It was noted that there had been an increase in homelessness during this quarter but there had been some progress with Paradigm making 5 one-bedroom houses available in Amersham for short-term use. Some of the Waste indicators were off-target, particularly customer services due to the large volume of calls received for chargeable green waste. Fly-tipping was not meeting targets for clean-up although this may have been due to incorrect dates being used. Sustainable Development had 6 new indicators, most were on or above target.

Members asked whether the ICT helpdesk was adequately resourced. It was advised that this would be addressed in the current service review. The Green Deal was discussed due to the low take up both in the district and nationally. Councillors were concerned about the Waste indicators and asked if they could have statistics prepared for just the Chiltern area. It was advised that the joint waste committee had decided to present joint figures so none would be available.

There was a question about the large number of planning appeals allowed in this quarter. It was advised that the average figure over the year was still at an acceptable percentage of about 28%.

RESOLVED

That the Quarterly performance indicator report (Q2 2014-15) be noted.

9 STANDING ITEM: JOINT COMMITTEE PROGRESS REPORT

RESOLVED

That the joint committee progress report be noted.

10 EXCLUSION OF THE PUBLIC

RESOLVED –

That under section 100 (A) (4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following item(s) of business on the grounds that they involved the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

11 CHILTERN & WYCOMBE JOINT WASTE CONTRACT

A request had been made by the contractor for additional payments to be made. Following advice, the request was declined. It was possible that the matter would go to mediation or arbitration to resolve the issue.

It was also noted that the contractor was seeking to divest its environmental services division and has begun the legal process to do so by novating contracts.

RESOLVED

That the Resources Overview Committee noted the changing circumstances of the Waste contract.

The meeting ended at 7.59 pm

CHILTERN DISTRICT COUNCIL
RESOURCES OVERVIEW COMMITTEE – 20 JANUARY 2015

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28 DAY NOTICE FORWARD PLAN & WORK PROGRAMME

Contact Officer: *Mathew Bloxham (01494 732143)*

Matter for Consideration

RECOMMENDATION

To review the Work Programme and to identify potential topics for review from the 28 Day Notice Forward Plan.

Work Programme

1 No items remain outstanding on the Work Programme.

2 The most recent progress report to the Joint Committee (standing item) was considered at the previous meeting.

28 Day Notice Forward Plan

3 Members are requested to look at the 28 Day Notice Forward Plans to identify potential topics for review:

Joint Committee: 4 February ***(Appendix 1)***
Chilterns Crematorium Joint Committee: 16 February (Agenda to be confirmed)
Cabinet: 20 February ***(Appendix 2)***
CDC & WDC Joint Waste Collection Committee: 29 January ***(Appendix 3)***
Joint Waste Committee for Bucks: Date to be confirmed

Background Papers*: None*

28-DAY NOTICE – FORWARD PLAN

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

This is a Notice of an intention to make a Key Decision on behalf of the Local authority (Regulation 9) and an intention to meet in private to consider those items marked as 'Private Reports' (Regulation 5).

A further Notice (the 'Agenda') will be published no less than 5 working-days before the date of the Cabinet meeting and will be available at: Chiltern District Council & South Bucks District Council

CHILTERN & SOUTH BUCKS JOINT COMMITTEE (JC)

Meeting: 4 February 2015 (CDC)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Consultation How/When[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Contact Officer and Telephone Number
No	**Programme Report:** Update on the programme activities, risks and finances.		**JC** 4 Feb 15	No	Jim Burness CDC: 01494 732905 SBDC: 01895 837217
No	**Shared IT Highlight Report:** Update on the shared IT programme activities, risks and finances.		**JC** 4 Feb 15	No	Jim Burness CDC: 01494 732905 SBDC: 01895 837217
Yes	**Business Case for Shared Human Resources Service:** To consider the business case for a shared Human Resources Service		**JC** 4 Feb 15	Yes (Paragraph 1) (Paragraph 4)	Judy Benson CDC: 01494 732903 SBDC: 01895 837288
Yes	**Business Case for Shared Policy, Performance & Communication Service:** To consider the business case for a shared Policy, Performance & Communications Service		**JC** 4 Feb 15	Yes (Paragraph 1) (Paragraph 4)	Rachel Prance CDC: 01494 732015 SBDC: 01895 837204
Yes	**Joint Health and Safety Committee:** To consider a report on the proposed Joint Health & Safety Committee		**JC** 4 Feb 15	No	Joanna Swift CDC: 01494 732761 SBDC: 01895 837

1 The Chiltern & South Bucks Joint Committee membership comprises of the following six Cabinet Members from each authority:

Chiltern District Council: Mrs I Darby; M Stannard; P Hudson; G Harris; P E C Martin; F Wilson
South Bucks District Council: Mrs J Woolveridge; D Smith; Mrs A Cranmer; A Busby; R Reed; N Naylor

A Key Decision is defined as:
- Decisions likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the Decision relates; or
- To be significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions in the area of the Council

Each of the constituent local authorities provides the following definition of a Key Decision, as detailed in the Constitution.

Chiltern District Council
A 'Key' Decision is any decision taken in relation to a function that is the responsibility of the Cabinet and which is likely to:

- result in expenditure (or the making of savings) over £30,000 and / or
- have a significant impact on the community in two (or more) district wards.

and

- relates to the development and approval of the Budget; or
- relates to the development, approval and review of the Policy Framework, or
- is otherwise outside the Budget and Policy Framework.

South Bucks District Council
A Key Decision being defined as a decision which has income or expenditure effect of £5,000 or more where the sum has not already been budgeted.

2 Each item considered will have a report; appendices will be included (as appropriate). Regulation 9(1g) allows that other documents relevant to the item may be submitted to the decision-maker. Subject to prohibition or restriction on their disclosure, this information will be published on the Council website – Chiltern District Council & South Bucks District Council – usually 5 working-days before the date of the meeting. Paper copies may be requested (charges will apply) using the contact details below.

3 This column shows the process of consultation, which takes place prior to Joint Committee. Further information on each of the Councils' Committees can be found at: Chiltern District Council & South Bucks District Council

4 The public can be excluded for an item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act 1972. The relevant paragraph numbers and descriptions are as follows:

Paragraph 1	Information relating to any individual
Paragraph 2	Information which is likely to reveal the identity of an individual
Paragraph 3	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
Paragraph 4	Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority
Paragraph 5	Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings
Paragraph 6	Information which reveals that the authority proposes: (a) to give under any enactment a notice under or by virtue of which requirements are imposed on a person; or (b) to make an order or direction under any enactment
Paragraph 7	Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime

Part II of Schedule 12A of the Local Government Act 1972 requires that information falling into paragraphs 1-7 above is exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Nothing in the Regulations authorises or requires a local authority to disclose to the public or make available for public inspection any document or part of a document if, in the opinion of the proper officer, that document or part of a document contains or may contain confidential information.

Should you wish to make any representations in relation to any of the items being considered in private, you can do so – in writing – using the contact details below. Any representations received, together with any response from the Council, will be published on the Notice (the 'Agenda') issued no less than 5 working-days before the meeting. This will be available on the Council website – Chiltern District Council & South

Bucks District Council

Contact:

Democratic Services, Chiltern District Council, King George V House, King George V Road, Amersham, HP6 5AW; email: chiefexecs@chiltern.gov.uk; tel: 01494 732143

Democratic Services, South Bucks District Council, Capswood, Oxford Road, Denham, UB9 4LH; email: democratic.services@chiltern.gov.uk; tel: 01895 837200

28-DAY NOTICE – FORWARD PLAN

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

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A further Notice (the 'Agenda') will be published no less than 5 working-days before the date of the Cabinet meeting and will be available at www.chiltern.gov.uk/democracy

Leader (Councillor Mrs I A Darby)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Date to Overview[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Director
No	**Service Plan Summaries 2015/16:** This report introduces the Council's service plan summaries for 2015/16		Cabinet **10 Feb 2015**	No	Chief Executive
Yes	**HS2 Update:** to consider an update report		Cabinet **10 Feb 2015**	Yes (Paragraph 3)	Chief Executive
No	**Performance Indicator Review 2015-16:** This report introduces any changes to the performance indicators for 2015-16	Resources 17 Mar 2015	Cabinet **24 March 2015**	No	Chief Executive
No	**Quarterly performance indicator report (Q3 2014-2015):** This report monitors performance against pre-agreed targets.	Resources 17 Mar 2015	Cabinet **7 Apr 2015**	No	Chief Executive

Support Services - Deputy Leader (Councillor M Stannard)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Date to Overview[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Director
Yes	**Budget 2015/16:** To agree the revenue budget for 2015/16 that will form the basis for setting the Council Tax	Resources 20 Jan 15	Cabinet **10 Feb 15**	No	Director of Resources
Yes	**Capital Programme:** To consider and agree the proposed updates to the capital programme	Resources 20 Jan 15	Cabinet **10 Feb 15**	No	Director of Resources
Yes	**Treasury Management Strategy 2015/16:** To inform Members of the proposed treasury management strategy for the forthcoming year	Resources 20 Jan 2015	Cabinet **10 Feb 15**	No	Director of Resources
Yes	**Repairs & Renewals Programme 2015/16 to 2018/19:** To consider and agree the proposed updates to the Repairs & renewals programme	Resources 17 March 15	Cabinet **24 March 15**	No	Director of Resources

Sustainable Development (Councillor G Harris)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Date to Overview[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Director
Yes	**Duty to Co-operate with Aylesbury Vale District Council:** The Council has been requested by Aylesbury Vale District Council to notify them by February 2015 as to the level of unmet development the Council will be seeking the emerging Vale of Aylesbury Local Plan to meet in the Vale under the Duty to Co-operate. The report will set out the outcome of member and officer discussions, an anticipated Memorandum of Understanding and assessment to meet Aylesbury Vale District Councils request.		Cabinet **10 Feb 15**	No	Director of Services
Yes	**Sustainable Construction and Renewable Energy Supplementary Planning Guidance:** Following public consultation and consideration by the Services Overview Committee Cabinet to recommend adoption of the SPD to Council.	Services 3 Feb 15	Cabinet **10 Feb 15**	No	Director of Services

Environment (Councillor P E C Martin)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Date to Overview[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Director
No	**Aylesbury Crematorium Update:** to receive an update report		Cabinet **10 Feb 2015**	Yes (Paragraph 3)	Director of Services
Yes	**Serco Proposed Organisational Change:** to consider a report on Serco's organisational change proposal	JWCC 29 Jan 15 Services 3 Feb 15	Cabinet **10 Feb 2015**	Yes (Paragraph 3)	Director of Services
Yes	**Amersham Additional Parking Capacity possibly at Sycamore Road and AMSCP:** Potential to invest Capital into creation of additional spaces - extension of land owned by CDC at Sycamore Road and or further levels adjoining structure	Services 10 Mar 2015	Cabinet **24 Mar 2015**	No	Director of Services

Community, Health & Housing (Councillor P J Hudson)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Date to Overview[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Director
Yes	**Affordable Housing Delivery Update:** To update Members on the delivery of affordable housing in Chiltern (including the position of Affordable Housing Contributions) and to make recommendations for future expenditure utilising Affordable Housing Contributions	Services 3 Feb 2015	Cabinet **10 Feb 2015**	No	Director of Services
No	**Chiltern District Council Strategic Housing Framework 2014-15:** To receive an update on affordable housing delivery and to consider the Council's draft Strategic Housing Framework 2014-15		Cabinet **10 Feb 2015**	No	Director of Services
Yes	**Chiltern Community Cohesion Plan Update Report 2013 – 15:** To present members Chiltern's new Community Cohesion Plan 2013 – 15	Services 3 Feb 2015	Cabinet **10 Feb 2015**	No	Director of Services
Yes	**Home Energy Conservation Act Report:** To consider an update report		Cabinet **10 Feb 2015**	No	Director of Services
Yes	**Draft Chiltern And South Bucks Joint Community And Wellbeing Plan 2015 – 2018:**		Cabinet **10 Feb 2015**	No	Director of Services
No	**Home Energy Conservation Act Progress Report:** Report seeking approval of the Progress Report under the Home Energy Conservation Act which is due to be published on 31 March 2015, setting out progress made since the last report in March 2013 and the actions to be taken over the next two years		Cabinet **10 Feb 2015**	No	Director of Services
Yes	**Prestwood Sports and Leisure:** Tender Acceptance Prestwood Sports and Leisure Car Park repairs		Cabinet **7 Apr 2015**	Yes (Paragraph 3)	Director of Services

Customer Services (Councillor F Wilson)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Date to Overview[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Director
Yes	**Discretionary Rates Relief Policy:** Review of Discretionary Rates Relief Policy for Cabinet approval of new policy	Resources 2 Dec 2014	Cabinet **10 Feb 2015**	No	Director of Services
Yes	**Council Tax Support Scheme 2015/16:** Report to Cabinet to approve and recommend to Council approval of the updated regulations to govern the Council Tax Support Scheme for 2015/16		Cabinet **10 Feb 2015**	No	Director of Services

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and

- relates to the development and approval of the Budget; or
- relates to the development, approval and review of the Policy Framework, or
- is otherwise outside the Budget and Policy Framework.

As a matter of good practice, this Notice also includes other items – in addition to Key Decisions – that are to be considered by the Cabinet. This additional information is provided to inform local residents of all matters being considered.

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3 In order to support the work of the Cabinet and to enhance decision-making, reports are often presented to an Overview Committee for comment before going to the Cabinet. As such, this Notice also includes information on which Overview Committee (if any) will also consider the report, and on what date. The Council's two Overview Committees are: Services and Resources. Further information on the Council's Committees can be found at www.chiltern.gov.uk/democracy

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Contact: Democratic Services, Chiltern District Council, King George V House, King George V Road, Amersham, HP6 5AW; email: chiefexecs@chiltern.gov.uk; tel: 01494 732143

Appendix

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

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CHILTERN & WYCOMBE JOINT WASTE COLLECTION COMMITTEE (JWCC)

Meeting: 29 January 2015 (Chiltern District Council)					
Key Decision (Y/N)[1]	Report Title & Summary[2]	Consultation[3]	Decision Maker & Date	Private Report (Y/N) and Reason Private[4]	Contact Officer and Telephone Number (01494)
No	**Programme Report & Risk Register:** To receive an update on the Programme to date.		JWCC **29 Jan 2015**	Yes (Paragraph 3)	Kitran Eastman 732149
Yes	**Serco Proposed Organisational Change:** to consider a report on Serco's organisational change proposal		JWCC **29 Jan 2015**	Yes (Paragraph 3)	Director of Services

Background Papers, if any, are specified at the end of the Report

BUDGET & COUNCIL TAX REPORT 2015/16
***Contact Officer**: Jim Burness 01494 732095*

RECOMMENDATIONS

Revenue Budget 2015/16

1) **Depending on the chosen level of council tax, approve a Revenue budget for 2015/16 as summarised in options in the table in para 13, and recommend this to Council.**

2) **Agree the following use of earmarked reserves for 2015/16**
   Local Development Plan £306k
   District Elections May 2015 £76k.

3) **Agree the following additions to earmarked reserves for 2015/16**
   Capital – Funding replacement refuse vehicles, £394k
   Capital – Funding of future capital programme, £1,247 or £1,306k, depending on the chosen level of council tax.

4) **Note the advice of the Director of Resources (Appendix A), and consider whether to make any adjustments between the earmarked reserves.**

Setting the Council Tax

5) **Agree that this report be made available to all Members of the Council in advance of the Council Tax setting meeting on 25th February, and a final report is produced for the Council meeting incorporating the information from preceptors, and the final decisions of the Cabinet on the budget.**

Relationship to Council Objectives

(i) The Council's code of corporate governance highlights the importance of having in place clearly documented processes for policy development, review and implementation, decision making, and monitoring and control. Following from this is the requirement for sound financial management, being able to demonstrate resources are aligned to the corporate priorities of the Council, and that any material risks are assessed. Value for money is one of the Authority's main objectives and having a medium term financial strategy is a key element in demonstrating and achieving this.

(ii) The budget is essential to enabling the Council to deliver its objectives.

Implications

(i) This matter is a key decision within the forward plan.

(ii) This matter is within the Policy and Budgetary Framework.

Financial Implications

The report proposes a revenue budget for 2015/16.

Risk Implications

The report highlights the short and medium term key financial risks for the Authority.

Equalities Implications

Any specific service changes contained within the budget will have been subject to equalities impact assessments.

Sustainability Implications

None.

Purpose of Report

1 This report provides information affecting the Council's revenue budget for 2015/16 in order for the Cabinet to make recommendations to Council on 25th February regarding the Council's budget and council tax for 2015/16.

Executive Summary

2 It is the responsibility of the Cabinet to prepare a revenue budget for approval by the Council which will form the basis of setting the council tax. This report sets out the main factors behind the draft budget that need to be considered. It also outlines the main issues affecting the Council's future financial position, as it is prudent to consider not just a single financial year in isolation.

Report

3 This report is divided into a number of sections, that as a whole cover the various elements that need to be considered when setting the Council's budget for the coming year and the council tax for the District. Based on consideration of the information in the report the Cabinet needs to make recommendations to the Council meeting in February where the total council tax, including the element relating to preceptors, will be decided.

<u>Contents of Report</u>

Section A - Financial Context and Base Budget position

4 On 16th December 2014 the Cabinet considered the draft service budgets and information available at that stage on the overall position related to Government funding.

5 On 18th December 2014 the Government announced the provisional local government financial settlement for 2015/16.

6 For Chiltern the following table shows the key figures for 2015/16.

	2013/14 £'000	2014/15 £'000	2015/16 £'000
Business Rate Baseline	7,908	8,062	8,216
Business Rate Tariff	-6,603	-6,732	-6,861
Baseline Need	1,304	1,330	1,355
Revenue Support Grant (Note 1)	1,961	1,506	1,125
Settlement Funding Assessment	3,265	2,836	2,480
Year on Year Change (£k)		-429	-356
Year on Year Change (%)		-13%	-13%

Note 1: The 2015/16 RSG figure incorporates the Council Tax Freeze grant that was received for freezing the council tax in 2014/15.

7 The table illustrates the continuing material reduction in funding to the Council that had been anticipated. Funding reductions are expected to continue until at least 2018/19. No provisional figures were issued for 2016/17 funding as this will be determined after the May 2015 General Election.

8 Recent clarification of the settlement detail of the position regarding council tax freeze grants has confirmed that the Revenue Support Grant figure for 2015/16 includes the funding due for freezing the council tax in 2014/15. In addition there is also a one off grant payable of £74k in 2015/16 if the council tax is frozen again, equating to a 1% council tax increase.

9 The Business Rate Baseline represents the Government's estimate of the amount of business rates it anticipates the Council will collect. However income from Business Rates can be materially affected by appeals lodged by businesses with the Valuation Office. Successful appeals will reduce the business rates collectable. However losses for individual authorities are limited by a safety net mechanism to 7.5% of the net business rates assumed to be retained by the Council, for Chiltern this equates to £102k.

Section B - Investment Income and Grants

10 The Council's Treasury Management Strategy for 2015/16, which is also being considered at this meeting, sets out the approach aiming to deliver investment income for 2015/16 of £110k

11 An important source of grant funding for the authority is the New Homes Grant that rewards authorities for each new home by providing a grant equivalent to the national average Band D council tax on the property for each of the six years following completion of the property. The cumulative funding the Council will receive in 2015/16 from this source is £734k, an increase on the current year of £12k.

Section C - Budget Requirement and Council Tax Issues

12 Since Cabinet reviewed the draft budget in December 2014 there has been one adjustment as follows:

- The proposed reduction in Housing Benefit / Council Tax Support Admin grant is higher than anticipated £4,190.

13 The build-up of the budget, based on two options of a 1.9% increase in the District council tax, or a 0% increase, are summarised in the following table.

Revenue Budget 2015/16	1.9% incr £'000	0% incr £'000
Leader	619	619
Healthy Communities	1,604	1,604
Sustainable Development	1,387	1,387
Waste & Property Services	1,260	1,260
Customer Services	979	979
Support Services	3,425	3,425
Trading Undertakings	-115	-115
Salary Reallocation	-58	-58
Net Cost of Services	9,101	9,101
Payment to Parishes	80	80
Investment Income	-110	-110
Notional Interest on Refuse Vehicles	70	70
Use of Earmarked Reserves		
- LDD	-306	-306
- District Elections May 2015	-76	-76
- Contribution to fund replacement refuse vehicles	394	394
- Contribution to fund capital programme	1,306	1,247
Budget Requirement	10,460	10,401

14 In 2015/16 the Council is in the position to set aside up to £1.3m to support the capital programme depending on the level of council tax set. This is proposed in order to make the Capital Programme sustainable in the medium term, as the projection of the programme is that the current level of resources will be exhausted after 2016/17. The report on the Capital Programme on this agenda illustrates the position in more detail.

15 The draft budget has been discussed at the Resources Overview Committee and any comments received will be made known to members at the meeting.

16 The latest budget monitoring information shows that the forecast level of general reserves at the end of the current financial year to be £4,213k. Section E of the report contains the Director of Resources advice on the level of reserves.

Section D - Medium Term Financial Strategy Update

17 This is shown in the following tables with notes about the assumptions made. The tables show the impacts of either freezing the council tax in 2015/16, or increasing it by 1.9%. The difference between the two scenarios, is reflected in the size of the fiscal gap for 2016/17 and subsequent years, and is broadly £140k per annum.

2015/16 – 1.9% Council Tax Increase

	2015/16	2016/17	2017/18	2018/19	2019/20
	£k	£k	£k	£k	£k
RSG	-1,125	-655	-255	0	0
CT Freeze (15/16)					
NDR	-1,355	-1,369	-1,382	-1,396	-1,410
New Homes Bonus	-734	-734	-704	-525	-365
Total Grant	-3,214	-2,758	-2,341	-1,921	-1,775
Investment Income	-110	-60	-60	-60	-60
Collection surplus	-100				
Contribution to Parish CTS	80	50	19	0	0
Total income	-3,344	-2,768	-2,382	-1,981	-1,835
Service Expenditure	9,101	9,329	9,562	9,801	10,046
Notional interest	70	50	30	10	10
Movement in reserves (Elections)	-76				
Capital Contribution	394	394	394	394	394
LDF Fund	-306	-214			
Capital fund	1,306				
Total Expenditure	10,489	9,559	9,986	10,205	10,450
Precept required	7,145	6,791	7,604	8,224	8,615
CT Base	43144	43244	43344	43444	43544
Band D	165.62	168.77	171.97	175.24	178.57
Precept on Collection Fund / Total Collected	7,145	7,298	7,454	7,613	7,776
Surplus / (Shortfall)	0	508	-150	-611	-839

2015/16 – 0% Council Tax Increase

	2015/16	2016/17	2017/18	2018/19	2019/20
	£k	£k	£k	£k	£k
RSG	-1,125	-655	-255	0	0
CT Freeze (15/16)	-74				
NDR	-1,355	-1,369	-1,382	-1,396	-1,410
New Homes Bonus	-734	-734	-704	-525	-365
Total Grant	-3,288	-2,758	-2,341	-1,921	-1,775
Investment Income	-110	-60	-60	-60	-60
Collection surplus	-100				
Contribution to Parish CTS	80	50	19	0	0
Total income	-3,418	-2,768	-2,382	-1,981	-1,835
Service Expenditure	9,101	9,329	9,562	9,801	10,046
Notional interest	70	50	30	10	10
Movement in reserves (Elections)	-76				
Capital Contribution	394	394	394	394	394
LDF Fund	-306	-214			
Capital fund	1,247				
Total Expenditure	10,430	9,559	9,986	10,205	10,450
Precept required	7,012	6,791	7,604	8,224	8,615
CT Base	43144	43244	43344	43444	43544
Band D	162.53	165.62	168.77	171.97	175.24
Precept on Collection Fund / Total Collected	7,012	7,162	7,315	7,471	7,631
Surplus / (Shortfall)	0	371	-289	-753	-984

Assumptions

- Government (RSG) funding assumed to reduce in future years in line with the general trend of recent years.
- 1% growth is assumed in retained business rates (NDR).
- No growth is assumed in New Homes Bonus funding, and income falls in future years as the earlier years funding is phased out from 2017/18.
- No surplus from the Collection Fund assumed in future years
- CTS grant related to parishes is assumed to be gradually reduced as revenue support grant reduces.
- Service expenditure assumed to increase for planning purposes by broadly 2.5% per annum approximately as a result of cost pressures.
- Council tax assumed to increase by 1.9% per annum from 2016/17, but no material growth assumed in the tax base.

18 The forecast tables shows the potential future funding gap for the Authority that starts to develop from 2017/18 onwards. Whilst the forecast figures are sensitive to assumptions made around cost increases, assumptions about council tax increases, or New Homes Bonus funding, the picture is clearly one that shows of a continuing need to identify means of reducing net costs in the coming years. What the Authority has achieved to date has put it in the position where it can plan towards savings over more than one year. Also as council tax becomes increasing the main source of funding for the Council that it can influence, decisions on the level of the tax become important to the Council's medium term financial strategy.

19 In the medium term the key financial risks facing the Authority are:

- The continuing significant reduction in Government funding, and the Council's ability to adjust its net expenditure base to cope with the reductions.
- The cost of waste services in the context of the waste disposal arrangements for Bucks.
- The cost of public inquiries or responding to major national infrastructure proposals affecting the District

Section E - Advice of the Director of Resources

20 The detailed advice of the Director of Resources as the Authority's statutory financial officer is set out in Appendix A. In summary the key points of the advice are as follows.

- The estimates for 2015/16 have been prepared in a thorough and professional manner.
- The key budget risks have been identified.
- The main financial risks to the Council for the coming year have been assessed as follows.
    - Shortfall on income targets.
    - The cost of major planning inquiries, enforcement actions or responding to national infrastructure proposals that impact on the area. Specific earmarked reserves exist to cover these matters.

21 The suggested prudent level of general reserves for 2015/16 is £780k. The Appendix also sets out the estimated level of earmarked reserves at the end of 2014/15. Members can consider whether they wish to make any adjustments between the various earmarked reserves as part of the overall decisions on the budget.

22 In the medium term the Authority will continue to face risks in delivering its corporate plan objectives in the context of the continuing limitation of external funding resources.

Background Papers: None

APPENDIX A

CHIEF FINANCIAL OFFICER REPORT

.1 I am making this report in compliance with the personal responsibilities placed upon me by s25 to s28 of the Local Government Act 2003. The legislation requires me to report to the Authority on two matters.

- The robustness of the estimates it makes when calculating its budget requirement.
- The adequacy of the Authority's reserves, taking into account the experience of the previous financial year.

Robustness of Estimates

.2 The process for preparing the budgets started in the autumn of 2014. From the outset the budget development was influenced by a number of key factors.

- The need to keep expenditure and likely resources in balance given the limitations on increases in council tax and the continuing significant reductions in government grant.
- The national economic picture that affects many of the Council's main income streams and levels of housing and benefits expenditure.
- The need to resource the implications of the corporate plan to enable the Council to make progress on its corporate aims.

.3 During 2014 the Authority has continued its working with South Bucks DC and is progressing a programme of service reviews to explore opportunities for joint working. The savings from the completed service reviews are reflected in the 2015/16 budgets. As in recent years the 2015/16 budget is integrated with the Authority's service planning process, and therefore plans reflect the resources available.

.4 The budget process has rigorously limited new expenditure to only the unavoidable minimum.

.5 The financial position of the Council clearly indicated the need to continue to make savings for future years, and work is in progress to identify further savings options for 2016/17 and future years, and this is expected to include the benefits from continuing joint work with South Bucks DC. The continued focus on delivering savings is important, and part of this will be having in place mechanisms to monitor and report on agreed savings.

.6 The detailed budget preparation was overseen by an experienced qualified accountant, supported by other finance staff familiar with the requirements of the budget preparation process. The basis of the estimates included the following elements which are in my view crucial to setting realistic budgets.

- Staffing budgets are prepared on a zero base approach, and are built up based on the actual staffing establishment and its current costs. The final budgets also include a vacancy factor of 2% consistent with that used in past years which has proved to be realistic.

- The budgets reflect as far as can be determined costs of major contracts including known or likely cost increases.

- The budgets are informed by the results of the 2014/15 budget monitoring and recognise those issues that are unavoidable and would carry through into 2015/16.

- The budget identified any recurring costs of Council decisions taken since March 2014.

.7 The detailed budget have been scrutinised by:

  - Officers
  - Portfolio Holders
  - Resources Overview Committee

.8 In particular the draft budgets were very thoroughly examined by Cabinet members in an exercise led by the Portfolio Holder for Support Services. The budget does not contain any unspecified or unrealistic savings proposals or contingencies.

.9 Investment income expectations reflect a realistic view on the level of interest rates over the next few years, and this is will be reflected within the treasury management strategy.

.10 Finally the budgets have been assessed as part of the Authority's approach to risk management and the major financial risks identified. These will be referred to in the following section dealing with the adequacy of reserves.

.11 Taking all these factors into account I am satisfied that the estimates have been prepared on a robust basis.

Adequacy of Reserves

.12 The Council has a policy on its reserves, and this policy accords with the guidance issued by the Chartered Institute of Finance and Accountancy (CIPFA) on local authority reserves and balances. In essence the Policy states that the minimum level should be based on 7½% of the net cost of services, plus any material financial risks identified for the coming financial year for which specific provision has not been made.

.13 The Code of practice on local authority accounting requires the purpose, usage and basis of transactions of earmarked reserves to be identified clearly. The Council has a number of earmarked reserves where it has full control over their deployment. These need to be kept under review taking into account the current financial issues facing the Council. The following table shows the Council's reserves position estimated for 31st March 2015.

Description	31/3/15 £k	Comment
Business Rates Equalisation Reserve	250	To offset any in year loss in retained business rates to the District not covered by the business rates safety net arrangements.
Rent Deposit/Private Leasing and Homelessness prevention reserve	228	To provide funding to assist households in accessing affordable housing and reducing temporary accommodation and avoiding homelessness
Neighbourhood Planning Reserve	17	To hold Neighbourhood Planning Grant until expenditure incurred
Housing Benefits Reserve	508	DWP funding provided in previous years for implementation of welfare reform changes. To be used in future years for service transformation to improve capacity and resilience to cope with forthcoming change.
Election Fund	96	To meet the cost of local elections as and when required
Community Safety Initiatives	107	Funding secured in previous years to be used to support community safety projects.
Waste Initiatives Reserve	294	Reserve established to provide support for delivery of waste and recycling projects across the District
Planning Reserve	661	To meet the costs of major planning appeals and enforcement actions.
Local Development Framework Reserve	163	To meet costs of the Local Development Document process, including studies and surveys.
HS2 Reserve	78	To cover potential costs involved in challenging the HS2 proposal and seeking mitigation through legal and parliamentary processes.
Transformation Reserve	116	To enable the Council to progress organisational and service delivery change including joint working
Workforce Strategy Reserve	125	To help meet costs associated with organisational change
Economic Development Reserve	250	To support projects with local business and other partners to benefit the local economy
Car Parking	100	To fund parking capacity assessments when required
Affordable Housing	425	To support the provision of affordable housing
Capital Projects Reserves	0	This reserve is held to provide further resources for capital expenditure.
Repairs & Renewals Fund	506	For the replacement of vehicles, plant, machinery and equipment as required and as a contingency for major repairs to buildings as part of the capital programme
Total Earmarked Reserves	3,924	

.14 In considering the level of general reserves in addition to the cash flow requirements the following factors are considered:

Budget assumptions	Financial standing and management	Comment on CDC position
The treatment of inflation and interest rates	The overall financial standing of the Authority (level of borrowing, debt outstanding, council tax collection rates)	The budgets are based on known price increases as far as is possible. External advice has been taken on interest rate forecasts and these have been used with prudent assessments of the level of cash available for investment. This is set out in the Treasury Management Strategy.
Estimates of the level and timing of capital receipts	The Authority's track record in budget and financial management	The forecast of future capital receipts reviewed over the course of the budget process to ensure it is realistic. At present no major receipts are anticipated in the coming years.
The treatment of demand led pressures	The Authority's capacity to manage in-year budget pressures	The Authority has in place regular budget monitoring procedures to identify any in year pressures, and to consider what actions can be taken. Reports are produced monthly for Management Team and Cabinet members. The budget process has also picked up any demand led pressures that need to be built into the 2015/16 budget.
The treatment of savings/efficiency gains	The strength of financial information and reporting arrangements	The effort put into financial monitoring needs to be maintained and the Authority needs to ensure adequate resources are directed to this activity. The key strategic risk for the Authority is the limitation on resources will limit speed and scale of progress on Corporate Plan, and may impact on statutory performance and compliance issues.
The financial risks inherent in any significant new funding partnerships or major capital developments	The Authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level	The Council undertakes a risk assessment of the budget risks it faces. The major risks for 2015/16 are highlighted below.
The availability of other funds to deal with major contingencies	The adequacy of the Authority's insurance arrangements to cover major unforeseen risks.	The Authority has sufficient reserves to cover insurance liabilities. It has also the resources in general or earmarked reserves to make reasonable contingencies against matters such as HS2, major enforcement actions etc.

.15 From the preceding table it can be seen that the Authority takes action to reduce budget risk and therefore influence the level of reserves it needs to hold. There will always be areas of risk or uncertainty and which need to be assessed as part of the budget process.

.16 The main financial risks to the Council for the coming year have been assessed as follows.

- Shortfall on income targets.
- The cost of major planning inquiries, enforcement actions or responding to national infrastructure proposals that impact on the area primarily HS2. Specific earmarked reserves exist to cover these matters.

.17 Based on the budget experience of the current year it would be prudent to allow for the possibility of some income shortfalls.

.18 In the longer term there will be the risks of:

- Managing the gap between cost increases the Council will face year on year, and the continued significant reductions in government funding, and the limitation of council tax increases. Key to managing this risk will be identifying further savings for the years from 2017/18 onwards.
- The costs of reaching and enforcing the Council's planning decisions, or responding to major national infrastructure proposals. This would include major issues such as HS2 and airports expansion.
- The development of the Authority's waste collection and recycling services in the context of Bucks CC's disposal arrangements.

.19 As a small authority the Council is always faced with the risk to achieving its objectives from capacity and reliance on a number of key staff. Therefore staffing issues will need to be kept carefully under review going forward.

.20 Taking all these factors into account it would be advisable to plan for a level of general reserves of at least around £780k for the forthcoming financial year, exclusive of any specific contingencies for which earmarked reserves have been established (see table above). This figure is made up as follows.

	£k
7½% Net Cost of Services	680
Potential Income shortfalls	100
	780

Legal Considerations

.21 The setting of the budget and the council tax by Members involves their consideration of choices and alternatives and Members have considered these in various earlier reports. No genuine and reasonable options should be dismissed out of hand and Members must bear in mind their fiduciary duty to the council taxpayers of Chiltern District Council. Should Members wish to make additions or reductions to the budget, on which no information is given in the report before Members, they should present sufficient information on the justification for and consequences of their proposals to enable the Cabinet (or the Council) to arrive at a reasonable decision on them.

.22 The report sets out relevant considerations for Members to consider during their deliberations, including the statement above from the Chief Financial Officer. Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision that no reasonable authority could come to, balancing the nature; quality and level of services that they consider should be provided, against the costs of providing such services.

.23 Members are reminded of s106 of the Local Government and Finance Act 1992, which prohibits any Member who has not paid for at least two months his/her Council Tax when it becomes due, from voting on setting the budget and making of the Council Tax and related calculations.

Jim Burness
Director of Resources
February 2015

CHILTERN DISTRICT COUNCIL
CABINET – 10th FEBRUARY 2015

Background Papers, if any, are specified at the end of the Report

CAPITAL PROGRAMME 2015/16 TO 2018/19
Contact Officer: Jim Burness (01494 732095)

RECOMMENDATIONS

Cabinet is asked to:

1. **Consider and agree the proposed Capital Programme for 2015/16.**

2. **Decide the funding strategy for the Capital Programme for 2016/17 and subsequent years.**

Relationship to Council Objectives
Schemes within the Capital Programme contribute to the delivery of all Council objectives.

Implications
(i) This matter is a key decision within the Forward Plan
(ii) This matter is within the Policy and Budgetary Framework

Financial Implications
The proposed programme is in accordance with the Council's financial policies and strategies. The report highlights the issue of the financial sustainability of the programme as available capital resources are exhausted in 2017/18.

Risk Implications
The risk implications of each scheme are considered as part of the business case appraisal process.

Equality Implications
The equality implications of each scheme are considered as part of the business case appraisal process.

Sustainability Implications
The sustainability implications of each scheme are considered as part of the business case appraisal process.

Report

Background

1 As part of the Council's budget process the Capital Programme is reviewed, in order to assess as part of the overall financial strategy of the Authority, what the scale and composition of the programme should be. When considering the Capital

programme in 2014 the Cabinet identified the issue of the financing of the programme in the medium term, i.e. 2016/17 and beyond.

Review of Capital Programme

2 The work undertaken as part of the budget process has reviewed the level of spend and phasing of schemes approved and in progress. The programme of schemes in progress or committed, is set out in Appendix 1. For 2015/16 the programme essentially comprises the following main elements.

Amersham Multi Storey Car Park: £825k

There are a number of projects approved for this site, that may be tendered as a single package, the main project of which is the over roofing of the car park to create additional parking capacity, and therefore income.

Disabled Facilities Grants: £390k

Local authorities have a responsibility to provide disabled facility grants. The majority of the cost of the grants are met from an allocation from the Better Care Fund administered by the Health & Wellbeing Board of £251k, so that the cost falling to Chiltern is only a proportion of the total programme. A contribution to the programme is also sought from Paradigm. This is an annual programme of grant support.

Leisure Centres maintenance: £100k

Under the contract with Greenwich Leisure the Council has responsibility for the structure and exterior of the Leisure Centres, including the repair and maintenance of visitor car parks. A sum of £100k is budgeted each year to meet these obligations.

Business Support (ICT) Projects: £326k

This comprises Chiltern’s share of the joint projects with South Bucks that were awarded £222k of Government funding for 2015/16. The projects utilised funding earmarked in the previous capital programme for ICT investment to secure the Government funding for projects specifically targeted to support and expand joint working. The main points in the approved bid are:

- Development of e-forms for users to submit information online
- Developing an appropriate mobile working solution
- Virtualisation of the desktop environment, minimising the specification and cost of desktop hardware, and making more efficient the deployment of applications to desktops.

The programme of project will be managed over two years, and progress will be reported to Government.

Capital salaries (Internal fees): £50k

This relates to engineers time spent on capital schemes. Sums are reviewed annually as part of the salary allocation process.

3 From the Appendix it can be seen that current capital resources will be exhausted during 2017/18. The detail of the programme will be reviewed annually as part of the budget process, but it is clear that to sustain the size of programme and allow some scope for new schemes that will arise, additional resources will need to be made available by a combination of asset sales and or contributions from revenue, unless the Council wishes to consider borrowing for capital expenditure.

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Opening Capital Reserve	3,533,752	2,154,111	631,430	129,430	-309,570
New Capital Resources	0	0	0	0	0
Use of Capital Resources	-1,379,641	-1,522,681	-502,000	-439,000	-289,000
Closing Capital Reserve	2,154,111	631,430	129,430	-309,570	-598,570

Commuted Sums Programme

4 In the context of capital investment it is important to include funding available from planning commuted sum agreements for affordable housing developments. Currently the commuted sum balance is:

	Balance as at 31.12.14
	£
s106 Affordable Housing - Conditional	1,526,918
s106 Affordable Housing - Unconditional	25,000
total	**1,551,918**

The programme for the use of these funds has previously been reported to Cabinet.

Repairs & Renewals Programme

5 The Council has an earmarked revenue reserve that funds repairs and renewals to the council's assets, based on annual contributions from the revenue budget. The programme of work for 2015/16 will be reported to the next meeting of the Cabinet.

Background Papers: *None*

	RP	RE	Budget Manager	14/15 Budget £	15/16 Budget £	16/17 Budget £	17/18 Budget £	18/19 Budget £
Environment								
Investment works at London Road Depot			Chris M	403,792				
Lords Mill Weir, Chesham		RE	Chris M	10,000				
Public convenience refurbishment			Chris M	0	47,384			
Land Purchases - Amersham On the Hill			Chris M	20,000				
AMSCP further Photo Voltaic system			Chris M	0	150,000			
Shared Parking Service - ICES 360			Chris M	47,500				
Sycamore Road - Additional parking spaces & resurfacing			Chris M	0	190,000			
AMSCP Guttering works			Chris M	0	31,000			
AMSCP Over roof			Chris M	5,445	644,297			
Additional off street parking solutions			Chris M	10,000				
Community, Health & Housing								
Leisure Centres	RP		Martin H	276,320	100,000	100,000	100,000	100,000
Leisure Provision Feasibility works			Martin H	50,000				
Prestwood - Car Park Upgrade			Chris M		130,000			
Disabled Facility Grants	RP	RE	Martin H	368,245	390,000	390,000	390,000	390,000
Renovation Grants		RE	Martin H	68,842				

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	RP	RE	Budget Manager	14/15 Budget £	15/16 Budget £	16/17 Budget £	17/18 Budget £	18/19 Budget £
Support Services								
MS Office Licenses (Triennial)	RP		Sim D	145,116			100,000	
ICT Helpdesk			Sim D	6,000				
Idox / Uniform Enhancements			Sim D	20,802				
Infrastructure upgrades	RP		Sim D	25,000		50,000	50,000	
IP telephony - enhance functionality			Sim D	36,000				
IP telephony - core infrastructure			Sim D	18,229				
Transformation Challenge Award Projects			Sim D	0	163,000	163,000		
Web Content Management System			Rachel P	22,852				
Shared Legal Service - Case Management			Joanna S	23,500				
KGVH - Roofing and skylight works Block A			Chris M	100,000				
KGVH - Works to Reception area			Chris M	100,985				
Capitalisation of Salary Costs								
Capital Salaries	RP		Chris M	50,000	50,000	50,000	50,000	50,000
				1,808,628	**1,895,681**	**753,000**	**690,000**	**540,000**

Notes

RP = Rolling Programme Capital Budget.

RE = Revenue Expenditure Funded from Capital. Regulations allows this to be charged to capital.

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Funded by

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Housing subsidy re DFG's	250,987	251,000	251,000	251,000	251,000
Paradigm contributions re DFG's	90,000	0	0	0	0
s106 parking commuted sums (D304)	88,000	0	0	0	0
Transformation Challenge Grant	0	122,000			
Capital Receipts / Capital Contributions	1,379,641	1,522,681	502,000	439,000	289,000
Total Funding	**1,808,628**	**1,895,681**	**753,000**	**690,000**	**540,000**

Opening Capital Receipts Reserve	3,533,752	2,154,111	631,430	129,430	-309,570
New Capital Receipts / Capital Contributions	**0**	**0**	**0**	**0**	**0**
Use of Capital Receipts / Capital Contibutions	-1,379,641	-1,522,681	-502,000	-439,000	-289,000
Closing Capital Receipts Reserve	**2,154,111**	**631,430**	**129,430**	**-309,570**	**-598,570**

CHILTERN DISTRICT COUNCIL
CABINET – 9th January 2015

Background Papers, if any, are specified at the end of the Report

TREASURY MANAGEMENT REPORT – OCTOBER to DECEMBER 2014
Contact Officer: Jackie Repper - 01494 732084

RECOMMENDATION

That Cabinet note the treasury management activity in the quarter October to December 2014.

Relationship to Council Objectives

Objective 1: Efficient and effective customer focused services.

Implications
This matter is not a Key Decision.
This matter is within the Policy and Budgetary Framework.

Financial Implications
Potential for adverse financial implications if a more high risk treasury management policy is adopted.

Risk Implications
Possible risk of financial loss and damage to reputation if less risk-averse stance is taken.

Equality implications
There are no direct equality implications.

Sustainability Implications
There are no direct sustainability implications.

Report

1. In accordance with the Treasury Management policy, this report sets out the activities of the Treasury Management operation for the quarter ending 31st December 2014.

2. All of the Council's investments are managed in-house. The investment criteria and parameters within which the treasury section works are set out in the Treasury Management Practices (TMP) document.

3. The table below summarises the transactions for the quarter:

External Loans	
Number of loans placed	3
Total value of loans placed	£5,240,000
Average interest rate on new loans	0.59%
Interest received on new loans	£4,949
Average interest rate (including loans b/f)	0.64%
Interest received (including loans b/f)	£27,985

4. The average interest rate achieved for the quarter on investments was 0.64% (2013/14 Q3: 0.83%; 2013/14 year: 1%).

5. There were no changes in base rate in the quarter, with the rate having remained at 0.5% since 5th March 2009.

6. The total of loans outstanding at the end of the quarter was £19,000,000. The detailed lending list is attached at ***Appendix 1*** and the table below summarises the spread of the portfolio:-

Type of Investment	% of portfolio limit	£m	%
Cash Deposits	100%	£14m	74%
Money Market Funds	75%	£5m	26%
Gilts	50%	0	0
Treasury Bills	50%	0	0
Certificates of Deposit	50% or £5m max	0	0
Supranational Bonds	50% or £5m max	0	0
Total Portfolio		**£19m**	
- of which:			
Non specified investments	£10m	£1m	5%
Max in Building Societies	75%	£1m	5%
Forward Dealing	25%	0	0%
Callable Deposits	25%	0	0%

7. The in-house treasury team are advised by external treasury management consultants. Chiltern and South Bucks have a joint contract with Capita Asset Services Treasury.

Investment Strategy

8. The investment strategy for the year was updated and agreed by Cabinet on 11th February 2014. The counterparty criteria and parameters within which day to day investments are managed are kept under review.

The Prudential Capital Code – Prudential Indicators

9. In accordance with the Prudential Capital Code the Council reviews its Prudential Indicators on a quarterly basis. The outcome of each review is included with this report.

10. Movements in the Prudential Indicators for the year 2014/15 to date are as follows:

- **Interest rate exposures**
  The interest rate exposure on investments has moved as follows:

	Investments as a % of total	
Date	**Fixed**	**Variable**
31/03/14	31%	69%
30/06/14	43%	57%
30/09/14	51%	49%
31/12/14	42%	58%

  This Prudential Indicator sets an upper limit on fixed interest rate exposures of 100% and variable interest rate exposures of 100% of net outstanding principal sums. Exposures have been managed within this limit.

- **Principal sums invested for periods longer than 364 days**
  The limit for non-specified investments is 100% of total investments, of which up to 50% only can be greater than 364 days. The figures are as follows:

Date	Total investments	Sums invested for longer than 364 days	% of total investments
31/03/14	£16.09m	£1m	6%
30/06/14	£18.55m	£1m	5%
30/09/14	£15.76m	£1m	6%
31/12/14	£19m	£1m	5%

  Sums invested have been managed within the set limit, and reflects the current level of rates that do not incentivise long term cash investments.

Banking services

11. A joint bank tender exercise with SBDC was commenced in January 2014 and the contract awarded in May. The winning bidder was Barclays and CDC switched to Barclays on 15 September 2014. The old Co-Op Accounts were formally closed 3 months later on 5 January 2015.

***Background Papers**: None*

CHILTERN DISTRICT COUNCIL - LENDING LIST
31 December 2014

	Category Min Criteria (Fitch)	Counterparty	Limit	Amount Loaned	Available To Lend	Rate	Date Invested	Date Matures	Specified / Non Spec		Ratings FITCH IBCA S/T	 L/T
1	**Money Market Funds**	**Ignis**	5,000,000	5,000,000	0	0.4-0.5%		on call	Specified			
		Invesco	5,000,000	0	5,000,000	0.3-0.4%		on call	Specified			
	Max investment per category		10,000,000	5,000,000	5,000,000							
2	**Part Nationalised**	**Lloyds Banking Group**									F1	A
		- Loans > 3 mths	3,000,000									
	institutions	- Bank of Scotland		1,000,000		1.00%	05/11/14	05/11/15	Specified			
	(UK Government backed)	- Bank of Scotland		1,000,000		0.70%	04/07/14	05/01/15	Specified			
	Max length: 3 years	- Bank of Scotland		1,000,000	0	1.55%	02/06/14	02/06/17	Non Spec			
	Was 0.75% - 0.62% wef	**- Call accounts**	5,000,000	2,000,000	3,000,000	0.62%		95dn				
		Natwest/RBS									F1	A
		- Loans > 3 mths	3,000,000									
		- Natwest		0								
		- Natwest		0	3,000,000							
		- Call accounts	5,000,000									
	* up to £1m = 0.5%;	- Natwest Instant Access *		1,000,000		0.25%		on call				
	> £1m = 0.25%	- Natwest 95 DN a/c		2,000,000	2,000,000	0.30%		95dn				
	Max investment per category		12,000,000	8,000,000	4,000,000							
										Min:	F1	BBB
3	**Other UK Institutions**	**Barclays**	3,000,000	1,000,000		0.89%	30/05/14	30/05/15	Specified		F1	A
	- 'High'	**Barclays**		0	2,000,000							
	Max length: 3 years	**Nationwide Building Society**	3,000,000	1,000,000		0.83%	19/05/14	19/05/15	Specified		F1	A
		Nationwide Building Society		0	2,000,000							
	Limit per counterparty:	**Santander**									F1	A
	Loans > 3 mths: £3m	**- Loans > 3 mths**	3,000,000									
	Call accounts: £3m	- Fixed term deposit		1,000,000		0.67%	09/09/14	09/03/15	Specified			
		- Fixed term deposit		1,000,000		0.68%	09/12/14	09/06/15	Specified			
		- Fixed term deposit		1,000,000	0	0.73%	09/06/14	09/03/15	Specified			
		- Call accounts	3,000,000									
		- Corporate 95 day a/c		0		0.55%		95 dn	Specified			
		- Business Reserve 30 day a/c		0		0.45%		30 dn	Specified			
		- Business Reserve Instant Access a/c		0	3,000,000	0.20%		on call	Specified			
		HSBC	3,000,000	0	3,000,000						F1+	AA-
	Max investment per category		12,000,000	5,000,000	7,000,000							
										Min:	F2	A-
4	**Other UK Institutions**	**Clydesdale** (part of NAB)	2,000,000	0	2,000,000			30 dn	Non Spec		F1	A
	- 'Low'	**Close Brothers**	2,000,000	0	2,000,000						F1	A
	Max length: 1 year											
	Max investment per category		5,000,000	0	5,000,000							
										Min:	F1	A
5	**Non UK Institutions**	**Svenska Handelsbanken**	1,000,000	1,000,000	0	0.55%		on call	Specified		F1+	AA-
	Max length: 1 year											
	Sovereign:											
	Max investment per category		5,000,000	1,000,000	4,000,000							
6	**Other Council Approved Investments**		1,000,000		1,000,000							
	Max length: 3 years											
	Max investment per category		3,000,000	0	3,000,000							
	TOTAL OUTSTANDING			19,000,000								

Variable	On call	7,000,000
58%	95 D.N.	4,000,000
Fixed	Up to 3 mths	0
42%	4 mths to 1yr	7,000,000
	1 yr plus	1,000,000
	Total	19,000,000

nalysis by counterparty type			
Banks	13,000,000	68%	TMP Rule
Building Soc's	1,000,000	5%	< 25% of total invested
MMF's	5,000,000	26%	< 75% of total invested
Total	19,000,000	100%	

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Appendix

Co-op Balance as at £12k

Barclays Balance as at £1,734k

CHILTERN DISTRICT COUNCIL
CABINET – 10th FEBRUARY 2015

TREASURY MANAGEMENT STRATEGY 2015/16
Contact Officer: *Jim Burness (01494 732095)*

RECOMMENDATIONS

That the Cabinet considers and approves the Treasury Management Strategy for 2015/16 to be recommended to Council.

Relationship to Council Objectives

Objective 1: Efficient and Effective Customer Focused Services

Implications

(i) This matter is a key decision within the Forward Plan
(ii) This matter is within the Policy and Budgetary Framework

Financial Implications

Investment income is one of the council's key income streams forming a significant part of the financial planning process and continues to be under significant pressure in the current economic climate.

Risk Implications

The Council's Treasury Management Policy states that the successful identification, monitoring and control of risk is to be regarded as the prime criteria by which the effectiveness of its treasury management activities will be measured. Risk will be minimised by adherence to the Treasury Management Practices.

Equalities Implications

There are no specific equality implications

Sustainability Implications

There are no direct sustainability implications.

Report

1 The Council adopted the CIPFA code of practice on Treasury Management in 2002, which includes the creation of a Treasury Management Strategy which sets out the policies and objectives of the Council's treasury management activities for the year ahead. Attached to this report is the Treasury Management Strategy for 2015/16 (Appendix 1), which has a number of appendices. The appendices cover the policies that will be followed plus the technical determinations the Council is required to undertake in respect of Prudential Indicators and the Minimum Revenue Provision.

2 The Council's Treasury Management Strategy was last reviewed in March 2014 and the consequences of the economic downtown continue to be felt. The direct impact on

the council's treasury management function is the continued low return on investment income as a result of historically low interest rates, where Base Rate has remained at 0.5% since 5 March 2009.

3 In 2013/14 investment income earned amounted to £174k with an average rate of return of 1%. In 2014/15 the forecast returns are £110k, with a rate of return of 0.75% and in 2015/16 income is forecast at the same level.

4 The investment environment continues to be challenging, and options to increase returns can be considered by for example extending duration of investment should attractive rates become available but without compromising security. Further details on the outlook for interest rates are set out in the strategy document.

5 The Director of Resources has delegated authority to adjust lending limits and periods within the criteria approved in the Treasury Management Strategy to take account of changing circumstances. This allows greater flexibility in the day to day management of the portfolio.

6 The Resources Overview Committee considered the Treasury Management Strategy at its meeting on 20th January 2015 and their comments, if any, will be reported verbally.

APPENDIX 1

Chiltern District Council

Treasury Management Strategy

2015/2016

1. Background

1.1. The Council follows the CIPFA code of practice on Treasury Management, which includes the creation of a Treasury Management Strategy, which also sets out the policies, and objectives of the Council's treasury management activities for the year ahead. For Members information the requirements of the Code are detailed below.

1.2 The Code is built largely on what was recommended practise in the previous version, but does place greater or new emphasis in certain key areas. The main points in the Code are as follows:-

a) All councils must formally adopt the revised Code and four clauses, these are shown as at Appendix A which also sets out the scheme of delegation and the treasury management role of the section 151 officer.

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities. This is consistent with the approach always adopted by this Council.

c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.

d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation. This is something the Council has always been very clear about, in that whilst it uses advisers and external sources of information, that it is the officers and members of the authority who are accountable for policy and decisions.

e) Credit ratings should be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on Government support for banks and credit ratings of that Government support.

f) Councils need a sound diversification policy with high quality counterparties and should consider setting country, sector and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme. As a debt free authority this is not an issue that arises for the Council. The Council is required to review its debt free status each year. The option of borrowing funds to finance additional capital expenditure could be considered in the future as a means of enabling more costly schemes, which would otherwise not be affordable, to take place, but it is not felt to be necessary for current planned expenditure at this stage.

h) The main annual treasury management reports must be approved by full Council.

i) There needs to be, at a minimum, a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved. For Chiltern DC this requirement is met by the reports to the Cabinet.

j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body. For Chiltern DC this is carried out by the Resources Overview Committee.

k) Treasury Management performance and policy setting should be subjected to prior scrutiny. This is achieved via the discussions on Treasury Management at the Resources Overview Committee.

l) Members should be provided with access to relevant training.

m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

n) Responsibility for these activities must be clearly defined within the organisation.

o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

1.3 This strategy statement has been prepared in accordance with the Code. As in previous years the Council's Treasury Management Strategy will be approved annually by the full Council. In addition there will also be monitoring reports to the Cabinet one of which will be the annual report. In addition the Support Services Portfolio Holder will be emailed each month with information showing where the Council's investment portfolio has been invested. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.4 The Council will adopt/reaffirm the following reporting arrangements in accordance with the requirements of the revised Code:-

Area of Responsibility	Reporting Arrangements	Frequency
Treasury Management Policy	Cabinet/Council	Reviewed annually.
Treasury Management Strategy Annual Investment Strategy MRP policy	Cabinet/Council	Annually before the start of the financial year
Treasury Management Strategy Annual Investment Strategy MRP policy – in year report	Cabinet	Appropriate report to Cabinet
Treasury Management Strategy Annual Investment Strategy MRP policy – updates or revisions at other times	Cabinet/Council	As appropriate
Annual Treasury Outturn Report	Cabinet/Council	Annually by 30th September after the end of the year
Monitoring Reports	Cabinet	Regularly
Treasury Management Practices	Cabinet/Council	Annually
Investment Portfolio Detail	Portfolio Holder	Monthly
Scrutiny of treasury management strategies & performance	Resources Overview Committee	Ongoing but with particular focus when considering annual Strategy

1.5. The Local Government Act 2003 and supporting regulations requires the Council to have regard to the CIPFA Prudential code and the CIPFA Treasury Management Code of

Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investments plans are affordable, prudent and sustainable.

1.6. The Act requires the Council to set out its Treasury Strategy and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.7. 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 requirements 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 revenues from :

- Loss of investment interest caused by the use of capital receipts to finance additional capital expenditure.
- 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.

1.8. The DCLG's investment guidance states that authorities could combine the Treasury Strategy Statement and the Annual Investment Strategy (AIS) into one report and the AIS supporting this Strategy Statement is attached as Appendix A.

1.9. The Council employs Capita Asset Services, Treasury Solutions as its external treasury management advisers. 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 external service providers. It is recognised that there is value in employing an external provider in order to access specialist skills and resources.

1.10. Following consideration of the Council's future funding requirements and economic forecasts and other relevant information, the proposed target figure for investment returns for 2015/2016 is £110,000

1.11. This Strategy seeks approval for this target level of return, how realistic it is and sets out how it can be achieved.

2. Current Portfolio Position

2.1. <u>Investment Criteria</u> – Investment income is mainly generated by Officers placing money in callable or fixed deposits with approved counter parties. When making the decision to invest Officers take into account security, liquidity and yield which are inter-related and the balance of the three is determined by the authority's needs and risk appetite. Decisions to invest are made following discussion between the Director of Resources and the Principal Accountant (Capital & Treasury) both of whom have suitable experience in the their roles. The discussion on investment is based upon information that is available from the Council's treasury consultants, Capita Asset Services, and brokers acting in the local authority money market, combined with general intelligence available from money market briefings made available to the authority. The approved lending matrix for in house counterparty investments longer than one year, made by Officers as part of the Treasury Management Strategy is as follows:

	Duration	Maximum Amount	Fitch Rating	Comment
UK Institutions	Up to 5 years	£3m	A- or better	High rated
	Up to 2 years	£2m	BBB+ or better	Low rated
Non UK Institution	Up to 2 years	£1m	A- or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 3 years	£2m	A- or better	
Other Approved Investments	Up to 3 years	£1m	A- or better	

2.2 A summary of the Council's current (at the end of November 2014) holdings of fixed deposits invested for a period of one year or more is shown below:

	Credit Rating	Amount Loaned £	Interest Rate	Invested	Matures
UK Institutions - High					
(Max £3m)					
Barclays	A	£1m	0.89%	1 year	30/5/15
Nationwide	A	£1m	0.83%	1 year	19/5/15
Lloyds/Bank of Scotland	A	£1m	1.00%	1 year	5/11/15
Lloyds/Bank of Scotland	A	£1m	1.55%	3 years	2/6/17
UK Institutions - Low					
(Max £2m)		-			
Non UK Institutions					
(Max £1m)		-			
Other Approved Investments					
(Max £1m)		-			
Total Deposits		£4m			

2.4 In addition the Officers invest short term cash flow. Short term reserves are required mainly in the last quarter of the year when council tax and grant payments tail off but precept payments continue. In recent years as the margin between short and long term rates has been narrow the Council has followed a policy of having a higher level of short term investments in order to take advantage of any upward movement in longer term rates. A summary of the Council's current short term cash holdings with a maturity of less than one year is shown below.

	Fitch	Amount £	Interest Rate	Period
Ignis Money Market Funds		£5m	0.4%-0.5%	On Call
Lloyds/Bank of Scotland	A	£1m	0.70%	6 months
Lloyds/Bank of Scotland	A	£2m	0.62%	95 day notice
Santander	A	£1m	0.67%	6 months
Santander	A	£1m	0.62%	6 months
Santander	A	£1m	0.73%	9 months
Natwest	A	£1m	0.25%	On Call
Natwest	A	£2m	0.30%	95 day notice
Svenska Handelsbanken	AA-	£1m	0.55%	On Call
Total		£15m		

3. Prospects for Interest Rates and Economic Background

3.1 Part of the service provided by the Council's treasury management advisers is to assist the Council to formulate a view on interest rates. The following table gives the Capita Asset Services central view on the bank rate and short term money rates.

	2015/16				2016/17		2017/18	
	Q1	Q2	Q3	Q4	Q1	Q4	Q1	Q4
Bank Rate	0.50%	0.75%	1.00%	1.00%	1.25%	1.50%	1.75%	2.50%
3 M LIBID	0.50%	0.60%	1.10%	1.30%	1.40%	2.10%	2.10%	2.60%
6M LIBID	0.70%	1.00%	1.20%	1.40%	1.50%	2.20%	2.30%	2.80%
12M LIBID	0.90%	1.20%	1.40%	1.70%	1.80%	2.30%	2.40%	3.00%

3.2 Capita Asset Services forecast that by the end of the March 2018 quarter the bank rate will be 2.5% with LIBID rates at 2.6 % 3 month, 2.8 % 6 months and 3.0% 12 months. A detailed view of the current economic background is shown in Appendix B. The key points that influence the Invest Strategy are as follows:

- The UK economy is showing signs of recovery but is still burdened with consumer debt, which will mean any increase in rates will be slow and incremental. The economy needs rebalancing to be less dependent on consumer expenditure and to increase productivity if growth is to be robust and sustainable.
- The UK is vulnerable to external factors, primarily the Euro Zone economy and the situation in Eastern Europe and the Middle East.
- The Euro Zone is showing low or negative growth, and there are still significant risks over a number of individual economies (e.g. Greece and Italy).
- Uncertainty in markets usually provokes a shift from equities to bonds/gilts, which acts to depress rates.

4 Achieving the investment target in 2015/16

4.1 The Council does not rely as part of the funding strategy for its revenue budget on interest earned on cash investments. For the current financial year the budget for investment income is £110k, and the Council is on track to achieve this target.

4.2 There are two elements to the Council's cash balances. Firstly there is the element that relates to the Council's working balance and from its cashflow over the course of the year.

These cash balances need to be kept in a very liquid form with investments of one year or less duration. Secondly there is the element of cash retained to finance capital expenditure or has been earmarked for specific purposes, and this can be invested for longer periods and does not need to be so liquid. Broadly speaking the average level of the two combined is expected to be around £10m.

4.3 In undertaking investments the Treasury Management Code of Practice sets out three important principles to have regard to:

- Security of Capital
- Liquidity
- A return consistent with these principles.

In recent years since the Icelandic Banks issue, authorities have been encouraged to see security as the most important principle. This Council has adopted an approach that places security as the key factor in its treasury management strategy.

4.4 The Council’s current core investment portfolio is split between short term investments of up to one year and those with a longer duration of up to five years.

4.5 Current market returns on cash investments are historically low and the likelihood is that this will continue for some years to come even if rates start to rise in 2015. This was initially primarily a result of the Funding for Lending Scheme and the Quantitative Easing strategy followed by the Bank of England which has depressed interest rates, but going forward sensitivity about the sustainability of the recovery and the weakness of growth in Europe is likely to keep rates low.

4.6 The depressed interest rate market and the issues around having a range of acceptable counterparties have affected the level of returns. Even if the counterparty criteria was loosened to allow investment in lower rated organisations or financial instruments it is unlikely this would materially improve returns. It is this interest rate climate that is leading authorities towards apply surplus cash reserves to fund projects that generate a return in terms of reduced operating expenditure and or increased income.

4.7 In summary the Council is unlikely to see any growth in its investment income due to the fact that interest rates, even if they do increase in 2015, are likely to remain below the historic average for the foreseeable future.

4.8 The proposed policy therefore for the coming year is to extend the duration of the investment portfolio, reducing the level of short term balances if rates improve, and also to maintain a good range of counterparties. Based upon this policy it is thought to be realistic to set the estimated return from investments for 2015/16 at £110,000.

5 Financial Summary & Risks

5.1 The budget for investment interest was set as £110,000 for 2014/15. Current estimated returns show that this is likely to be achieved.

5.2 For 2015/16 investment income will be based on average cash reserves of £10m. In addition officers invest surplus cash flow during the year and estimated returns are based on short-term interest rates remaining within the range of 0.30% to 1.50%.

5.3 Based upon the recommended Strategy outlined above the estimated investment returns for 2015/2016 is £110,000.

5.4 This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable. A change of £45,000 of investment income is equal to £1 council tax on a band D property.

5.5 As stated the investment returns are based upon a core level of balances for 2015/16 of £10m. The estimated capital programme shows that this is realistic based on the current level of approved expenditure. It also assumes the Council will remain a debt free authority.

5.6 As with any budgets based on forecasts of future interest rates there is a risk of variation due to factors outside of the Council's control. This risk will need to be taken into account in determining the level of revenue reserves held by the authority.

5.7 The Local Government Act 2003 sets out the new capital regulations and specifies that local authorities must comply with the Prudential Code produced by CIPFA. The Council has a duty to determine an affordable borrowing limit. As a debt free authority this would be nil, however the regulations also incorporate the limit for temporary borrowing any temporary borrowing since 1990/1991 it is necessary under statute to approve a limit in case the circumstances arise should it be required. It is recommend that Members approve an authorised borrowing limit of £3 million and an operational borrowing limit of £3 million, these together with other prudential indicators that the Council are required to set under the code are shown at Appendix C, and Appendix D covers the technical requirement in respect of calculating the minimum revenue provision.

<u>Appendices</u>

A – Annual Investment Strategy Policies

B – Economic Background

C – Prudential Indicators

D – Minimum Revenue Provision

Appendix A

SOUTH BUCKS DISTRICT COUNCIL

Annual Investment Strategy Policies 2015-16

1. This Council has regard to the DCLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sector Guidance Notes. The Council's investment priorities will be security first, liquidity second and then return.

2. This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of Specified investments and Non- Specified Investments. These are listed in Schedules A and B.

3. The policies underpinning the investment strategy for managing investments and for giving priority to the security and liquidity of those investments are set out in this document.

Treasury Management Policy Statement

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

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

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

CIPFA Treasury Management Code of Practice 2009

Introduction

7. The CIPFA Code of Practice on Treasury Management in Local Authorities was last revised in 2009 in the light of the default by Icelandic banks in 2008, and was approved by the Council on 23rd February 2010.

8. The revised Code also includes the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities.

9. The Code has also set out various requirements which have been summarised in section 1 of the Treasury Management Strategy Statement.

Resolutions

10. CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following.

    1. This organisation will create and maintain, as the cornerstone for effective treasury management:

        - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

        - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

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

    2. This Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

    3. This organisation delegates responsibility for the oversight and regular monitoring of its treasury management policies and practices to the Resources Portfolio Holder, and for the implementation and administration of treasury management policy and decisions to the Director of Resources, who will act in accordance with the organisation's policy statement and TMPs and, as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Treasury Management Role of the Section 151 Officer – Director of Resources

11. The responsibilities are summarised as follows.

    - Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.

    - Submitting regular treasury management reports.

    - Submitting budgets and budget variations in respect of treasury management activities.

    - Receiving and reviewing treasury 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 or advisors.

Investment Objectives

12. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity, and in an ethical manner that does not put the Council's reputation at risk. Investment of the Council's funds will be in accordance with the Treasury Management Strategy and Policy. All investments will be in sterling.

13. The DCLG maintains that 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.

Specified Investments

14. The idea of specified investments is to identify investments offering high security and high liquidity. These investments can be used with minimal procedural formalities. All these investments should be in sterling and with a maturity of no more than a year.

Non – Specified Investments

15. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for periods longer than one year or with bodies, and would be subject to appropriate credit rating.

Security of Capital: The use of Credit Ratings

16. This Council relies on credit ratings published by Fitch IBCA (Standard and Poor's for Money Market Funds where applicable) to establish the credit quality of counterparties and investment schemes. The Council determines the appropriate credit ratings it deems to be sufficiently high for each category of investment. The 2015/16 counterparty credit matrix for investments made by Officers as part of the Treasury Management Strategy is as follows:

	Duration	Maximum Amount	Fitch Rating	Comment
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB+ or better	
Non UK Institution	Up to 3 years	£2m	A- or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 5 years	£5m	A- or better	

Monitoring of credit ratings:

- The Council has access to Fitch IBCA credit ratings and is alerted to changes through its use of its treasury management advisor's website. These ratings cover both the specific financial institution but also the credit rating for the country in which the institution is incorporated.

- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately. The Council will also immediately inform any external fund manager that it may decide to use of the withdrawal of the same.

- The Council will establish with any fund manager that it may decide to use their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their stringency and regularity.

Monitoring of Reputational Risk Issues

17. This will be undertaken by monitoring the financial press and media to identify any issues in respect of the non-public sector investments held by the Council, and where appropriate seeking advice from external sources.

Use of Non – Specified Investments

18. The use of non-specified investments is limited to those set out in Schedule B. The Principal Accountant – Capital & Treasury will keep the use of such investments under continuous review in the light of risk (including reputational risk), liquidity and return. No additions will be made without the approval of the Council.

Investment balances/Liquidity of Investments

19. Based upon its cash flow forecasts, the Council anticipates its average core cash reserves in 2015/16 will be £12m. A prime consideration in the investment of fund balances is liquidity and the Council's forecast cash flow. Any in-house investment of more than three months needs the approval of the Director of Resources or the Head of Finance. If the Council were to choose to use the services of a cash fund manager duration limits will be specified in the contract.

Provisions for Credit related losses

20. If any of the Council's investments appears at risk of loss due to default the Council will make revenue provision of an appropriate amount, or follow any guidance issued by Government in such circumstances.

21. Any cash fund manager appointed by the Council will manage the funds on a discretionary basis. The fund management agreement between the Council and the manager would formally

document the instruments that could be used within pre-agreed limits. The fund manager would use the Council’s credit rating criteria.

End of year Investment Report

22. At the end of the financial year, the Council will prepare a report on its investment activity as part of its treasury management activity report.

Schedule A

LOCAL GOVERNMENT INVESTMENTS (ENGLAND)
SPECIFIED INVESTMENTS

All investments listed below must be sterling -denominated

Investment	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating	Circumstance of use	Maximum period
Term deposits with the UK government or with English local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)with maturities up to 1 year	Yes	High security although LA's not credit rated	In-house and by any external fund manager	1 year – in house 31 days – external fund manager
Term deposits with credit -rated deposit takers(banks & building socs) with maturities up to 1 year	Yes	Yes, use of Fitch ratings subject to counterparty matrix	In- house & by any external fund manager	1 year – in house 31 days – external fund manager. Internal forward deals subject to 3 months in advance only approved by DoR
Certificates of Deposit issued by credit – rated deposit takers banks and building socs): up to 1 year Custodial arrangement required prior to purchase	Yes	Yes, use of Fitch ratings subject to counterparty matrix	In- house & by any external fund manager	1 Year
Gilts: up to 1 year Custodial arrangement required prior to purchase	Yes	Govt- backed	In – house & by any External Fund Manager	1 Year
Money Market Funds	Yes	Yes, AAA rated	In -house & by any external fund manager	The period of investment may not be determined at the outset but would be subject to cash flow & liquidity requirements
Treasury bills (Government debt security with a maturity less than 1 year and issued through a competitive bidding process at a discount to par value) Custodial arrangement required prior to purchase	Yes	Govt- backed	In -house & by any external fund manager	1 Year

Schedule B

LOCAL GOVERNMENT INVESTMENT (England)
NON - SPECIFIED INVESTMENTS

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
UK government gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	(A)(i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return)per annum, aids forward planning. iv) Index linked gilts can offer means of insulating against effect of inflation on returns. (v)If traded, potential for capital gain trough appreciation in value (i.e.sold before maturity) (vi) No currency risk (B)(i) Market or interest rate risk: Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e potential for capital loss.	Yes	Govt backed	In –house & by any external fund manager	No restriction on gilts	Average maturity of the fund not to exceed 5 years

Classification: OFFICIAL

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
Supranational Bonds Custodial arrangement required prior to purchase	(A)(i)Excellent credit quality. (ii) Relatively liquid (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt – aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B)(i) Market or interest rate risk: Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii)Spread versus gilts could widen	Yes	AAA or Government guaranteed	In- house & External fund manager	Not more than 25% of the external fund with no more than 10% in any one institution In house maximum of £5m	Average duration of the fund not to exceed 5 years. Maximum of 5 years
Property Funds The use of these constitute capital expenditure	Alternative to cash funds. Returns subject to property market and rental streams	Not always dependant on terms of each fund	Investment in blue chip public sector property	Any Fund Manager	None	Dependant on terms of each fund
Term deposits with the UK government or with English local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)with maturities up to 5 years	Gives a known rate of return	No	High security although LA's not credit rated	In-house	None	5 years - in house

Classification: OFFICIAL

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
Term deposits with credit - rated deposit takers(banks & building socs), Including callable deposits with maturities up to 5 years	Gives a known rate of return	No	Yes, use of Fitch ratings Subject to counterparty matrix	In- house & by any external fund manager	None	5 years - in house Internal forward deals subject to 3 months in advance only approved by DoR
Corporate Bonds Custodial arrangement required prior to purchase	(A)(i)If held to maturity, known yield (rate of return) per annum (ii) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B)(i) Market or interest rate risk: Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss.	Yes	Yes, use of Fitch ratings Subject to counterparty matrix	In- house & by any external fund manager	Maximum of £5m	Maximum of 5 years
Corporate Bond Funds Pooled Investment Vehicle Custodial arrangement not required	(A) Attractive returns, provides Diversification, no need for custodial facilities, professional fund management, has liquidity. (B) Market or interest rate risk, impact of credit rating changes, will attract fund management fees, would have to account for unrealised gains and losses annually.	Yes- redeemable at net asset value	Yes, use of Fitch ratings Subject to counterparty matrix	Fund Manager	Maximum of £5m	Maximum of 5 years

APPENDIX B

ECONOMIC BACKGROUND

UK Economy

Strong UK GDP quarterly **growth** of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1, 0.9% in Q2 and a first estimate of 0.7% in Q3 2014 (annual rate 3.1% in Q3), means that the UK will have the strongest rate of growth of any G7 country in 2014. It also appears very likely that strong growth will continue through the second half of 2014 and into 2015 as forward surveys for the services and construction sectors are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though recent figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

This overall strong growth has resulted in **unemployment** falling much faster through the initial threshold of 7%, set by the **Monetary Policy Committee (MPC)** last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in **inflation** (CPI) during 2014 after being consistently above the MPC's 2% target between December 2009 and December 2013. Inflation fell to 1.2% in September, a five year low. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1% and then to remain near to, or under, the 2% target level over the MPC's two year ahead time horizon. Overall, markets are expecting that the MPC will be cautious in raising **Bank Rate** as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong growth has also helped lower forecasts for the increase in **Government debt** by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014

Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

The Eurozone (EZ).

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable but has made good progress in reducing its annual budget deficit and in returning, at last, to marginal economic growth. Whilst a Greek exit from the Euro is now improbable in the short term, some commentators still view the inevitable end game as either being another major right off of debt or an eventual exit.

There are also particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 24% and unemployment among younger people of over 50 – 60%. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. Any loss of market confidence in the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA.

The Federal Reserve started to reduce its monthly asset purchases of $85bn in December 2013 by $10bn per month; these ended in October 2014, signalling confidence the US economic recovery would remain on track. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised). The first estimate of Q3 showed growth of 3.5% (annualised). Annual growth during 2014 is likely to be just over 2%.

The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions. It is currently expected that the Fed. will start increasing rates in mid 2015.

China.

Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has been mixed. There are also concerns that the Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan.

Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In Q2 growth was -1.8% q/q and -7.1% over the previous year. The Government is hoping that this is a temporary blip.

CAPITA ASSET SERVICES FORWARD VIEW

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

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Over time, an increase in investor confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.

- Fears generated by the potential impact of Ebola around the world

- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.

- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.

- Weak growth or recession in the UK’s main trading partner - the EU, inhibiting economic recovery in the UK.

- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.

- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

- Recapitalisation of European banks requiring considerable government financial support.

- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.

- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

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

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

PRUDENTIAL CODE & INDICATORS STATEMENT

The Prudential Code for Capital Finance in Local Authorities was developed by CIPFA to support local authorities with the management of their capital finance and investment programmes. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The indicators will be monitored during the year and the final position at the year end compared to the forecast.

Prudential Indicators of Affordability

1.Capital Expenditure

The first prudential indicator for affordability gives details of the total capital expenditure plans. This is to help ensure that these are reasonable given the resources of the Council.

	2013/14 Actual £'000	2014/15 Forecast £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Capital Expenditure	2,632	1,809	1,896	753

For Chiltern the capital programme will continue to be fully funded from capital receipts, revenue reserves and Government grant, and the above capital expenditure plans will not reduce the level of those receipts to below that assumed in forecasting future investment income.

2.Ratio of financing costs to net revenue income stream

The second indicator shows how much of a council's revenue budget has to be allocated towards interest payments, or for a debt free authority such as Chiltern how much investment income contributes to the budget.

	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Financing Costs (1)	-174	-110	-110
Net Revenue Stream	11,248	10,838	10,374
Ratio	-1.5%	-1.0%	-1.1%

(1) ie net investment income

As Chiltern is debt free – income from investments far outweighs any short term borrowing costs, therefore the ratio of financing costs to revenue income stream (Government grant and Council tax payers) will be negative.

3. Incremental Impact on Council Tax

The next indicator assesses the impact of the capital programme on the revenue budget.

For Chiltern the size of the capital programme has an effect on the Council's revenue budget (and hence Council Tax) in two ways.

Firstly each pound spent on the capital programme reduces the amount of capital reserves, which in turn reduces the Council's investment holdings and thus the revenue interest earned by the Council. Based on current investment rates, increasing the overall capital programme by £100,000 will reduce annual interest by and thus increase the revenue budget by £1,000. Similarly reducing the overall capital programme by £100,000 will increase annual interest by and thus reduce the revenue budget by £1,000. £1,000 is equivalent to approximately 2p on the average band D Council Tax.

Secondly additional capital expenditure can result in additional revenue maintenance costs, for instance a new piece of ICT equipment is likely to required additional annual maintenance and support.

4. Capital Financing Requirement

This indicator provides details of an authority's underlying need to borrow. For debt free authorities this should be nil.

	2013/14 Actual £'000	2014/15 Forecast £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
CDC Capital Financing Requirement	0	0	0	0

Furthermore the Chiltern capital financing requirement will always remain nil whilst capital expenditure if fully funded from capital receipts and Government Grant.

5. Authorised Temporary Borrowing Limits

This indicator sets limits on how much Chiltern can borrow.

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Authorised Limit	3,000	3,000	3,000	3,000
Operational Limit	3,000	3,000	3,000	3,000

The Authorised Limit for Chiltern represents the maximum temporary borrowing limit. The Operational Limit focuses on the day to day treasury management activities of the authority and is set at a lower figure than the Authorised Limit because cash – flow variations may lead to the occasional (but not sustained) breeches of the operational limit.

Prudential Indicators for Prudence

1. Net Borrowing and The Capital Financing Requirement

The first prudential indicator for prudence is to ensure that in the medium term borrowing will only be used to fund capital expenditure. As Chiltern does not borrow (except for short term cash flow requirements) then this indicator is met.

2. Treasury Management Indicator

The second indicator is whether or not the authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector. Chiltern has done this and thus meets this indicator.

3. Upper limit for interest rate exposure.

The interest rates exposure indicators are designed to limit exposure to the effects of changes in interest rates. As a debt free authority these are set reasonably high to allow investment flexibility.

	2014/15	2015/16	2016/17	2017/18
Maximum level - Fixed Rate	100%	100%	100%	100%
Maximum level - Variable Rate	33%	33%	33%	33%

At present all the authorities investments are at fixed rates. To allow some flexibility in the coming year if rates start to become more fluid it would be sensible to set a limit for the proportion of the portfolio that could be at variable rates, and this is proposed to be 33%.

4. Maturity Structure of Borrowings

This indicator is designed to reduce the risk of large sums of borrowings having to be repaid at the same time. However as a debt free authority Chiltern will only ever have short term debt to cover cash flow shortfalls. As such for Chiltern all borrowings shall be repayable within 12 months.

5. Upper limit for total principal sums invested for over 364 days.

Where a local authority invests, or plans to invest, for periods longer than 364 days, the local authority must set an upper limit for each forward financial year period for the maturing of such investments. This prudential indicator is referred to as prudential limits for principal sums invested for periods longer than 364 days. This indicator is designed to ensure that authorities always have sufficient funds to cover their cash flow needs and thus do not need to realise investments before they reach maturity.

As Chiltern has cash reserves in excess of it general cash flow needs,it is able to invest longer term and thus has a high limit.

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Upper Limit	5,000	5,000	5,000	5,000

The above upper limit figure has been calculated taking into account the maximum that could be available for investing in excess of 1 year allowing for the needs of short term cash flow and the use of capital receipts to fund capital expenditure. At present the Council has £4 million of investments which may mature in excess of 364 days.

MINIMUM REVENUE PROVISION (MRP)

The Local Government and Public Involvement Act 2007 provided a new power to the Secretary of State to issue guidance on accountancy practice rather than through the formal issue of Regulations through statute.

The first guidance issued under this new power relates to Minimum Revenue Provision (MRP). This is the amount which local authorities provide for the repayment of their borrowings and whilst this Council is debt free and therefore needs to make no provision, it is still required to meet the requirements of the guidance in approving a policy statement on making MRP.

Under the guidance authorities will be required to prepare an annual statement in respect of their policy on making MRP. This must be submitted to Full Council and will form part of the annual prudential indicator report.

The guidance provides a number of options for making a 'prudent provision', this is to say that the provision for the repayment of borrowing used to finance the acquisition of an asset should be made over a period bearing some relation to that over which the asset provides a service to the authority.

The options for prudent provision are as follows:
Option 1 – Regulatory Method
Where debt is supported by Revenue Support Grant (RSG), authorities will be able to continue using the formulae used in the current regime, since the supported borrowing element of the RSG is also calculated this way.

Option 2 – CFR Method
This method is based upon 4% of an authority's non housing CFR (capital financing requirement) at the end of the preceding financial year. Where the CFR is negative or nil, no MRP will be required as is the case at present.

Option 3 – Asset Life Method
Here equal annual instalments of MRP will be made over the estimated life of asset financed by borrowing. Under this method the concept of an MRP holiday makes its debut. This provides the ability for an authority to defer MRP on a newly constructed building or infrastructure asset until the asset comes into service.

Option 4 – Depreciation Method
Using this approach will require an authority to charge MRP in accordance with the standard rules for depreciation accounting. As with option 3 the MRP holiday will be available for assets yet to be brought into service.

It is anticipated that options 1 & 2 will only be used where capital expenditure is incurred prior to 1st April 2008 and where capital expenditure is incurred on or after that date which the authority is satisfied forms part of its supported capital expenditure. Options 3 and 4 would be used in relation to all capital expenditure incurred after the 1st April which is financed by borrowing or credit arrangements.

In this Council's case where all of the capital expenditure is supported by financing either from Government grant or capital receipts and where the CFR is nil option 2 applies and no MRP is required as is the present case.

It is therefore recommended that option 2, the CFR method, is adopted as the Council's annual policy on making MRP for 2015/16.