Open Agenda

Council Assembly
Council Tax Setting

Tuesday 22 February 2011
7.00 pm
Town Hall, Peckham Road, London SE5 8UB

Councillors are summoned to attend a meeting of the Council to consider the business contained herein

Annie Shepperd
Chief Executive

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Contact
Lesley John/Sean Usher on 020 7525 7228 or email: lesley.john@southwark.gov.uk; sean.usher@southwark.gov.uk

Date: 10 February 2011

PRINTED ON RECYCLED PAPER

Southwark Council

Council Assembly
Council Tax Setting

Tuesday February 22 2011
7.00 pm
Town Hall, Peckham Road, London SE5 8UB

Order of Business

ANY OPEN ITEMS IDENTIFIED AS URGENT AT THE START OF THE MEETING

EXCLUSION MOTION (IF NECESSARY)

The following motion should be moved, seconded and approved if the council wishes to exclude the press and public to deal with reports revealing exempt information:

> "That under the access to information procedure rules of the Southwark constitution, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in section(s) 1 – 7 of paragraph 10.4 of the procedure rules."

PART B - CLOSED BUSINESS

ANY CLOSED ITEMS IDENTIFIED AS URGENT AT THE START OF THE MEETING

Date: 10 February 2011

Agenda Item 3.1

Item No: 3.1	Classification: Open	Date: 22 February 2011	Meeting Name: Council Assembly
Report title:		Establishing a Council Tax Setting Committee	
Wards or Groups affected:		All	
From:		Finance Director	

RECOMMENDATIONS

1. That council assembly notes the Greater London Authority (GLA) proposal to set a precept level on 23 February 2011.

2. That council assembly establishes a council tax setting committee in accordance with section 67 of the Local Government Finance Act 1992, to set the council tax for the year 2011/12. with the role and functions, matters reserved and political composition as set out in Appendix A.

3. That council assembly appoints councillors from each political group to serve on the council tax setting committee (see paragraph 11).

4. That council assembly appoints a chair and vice-chair of the council tax setting committee.

5. That the existing local war widows schemes for housing benefits and council tax benefits be continued in 2011/12.

BACKGROUND INFORMATION

6. Under the Local Government Finance Act 1992, the council is required to determine the level of council taxes in the borough for 2011/12. This must be completed before the 11 March 2011.

7. The Greater London Authority proposes to set a precept of £309.82 at Band D on 23 February 2011, an increase of 0.0%.

8. Due to the timing of the Greater London Authority's consideration of its precept this report recommends the establishment of a committee to formally approve the council tax and formal resolution for council taxes in 2011/12.

KEY ISSUES FOR CONSIDERATION

The budget requirement for Southwark services

9. The recommendations on the budget requirement for Southwark services in 2011/12 is addressed in the policy and resources report (general revenue fund), which will be considered by the reconvened cabinet meeting on 15 February 2011. Council assembly will consider the recommendation from the cabinet on the net budget requirement and the council tax required for Southwark services only.

10. The council's total council tax, however has to include the amount required by the preceptor - the council has no control over the level of this precept.

Setting the council tax for Southwark in 2011/12

11. It is recommended that due to the timing of the GLA meeting that council assembly delegates the setting of the council tax to a special committee established specifically for this purpose under section 67 of the Local Government and Finance Act 1992. The proposed role and functions, matters reserved and political composition of the committee are set out in Appendix A. Because of the wish to convene a committee as soon as possible after this council assembly meeting, this report recommends the approval of individual named councillors for voting members and reserves/substitutes as follows:

- Labour Group: 4 places (3 reserves)
- Liberal Democrat Group: 2 places (1 reserve)
- Conservative Group: 1 places (1 reserve)

12. The meeting is also asked to appoint a chair and vice-chair.

13. It is anticipated that the special council tax setting committee will meet on Thursday 24 February 2011. This will allow council tax notices to be issued in line with the normal statutory timetable.

Housing and council tax benefits - Local schemes

14. For the purpose of calculating both housing and council tax benefits, local authorities are allowed discretion in disregarding war disability pension and war widows' pensions above the fixed disregard required by law (currently £10.00).

15. The council's local schemes, like most schemes in London, currently disregards the whole of these pensions for the calculation of benefits. Benefit expenditure under the local schemes does not qualify for subsidy. There are currently some 32 people receiving the disregard at an estimated cost of £71,758. Benefit expenditure under the local scheme for 2011/12 attracts subsidy at 75% capped at 0.2% of the total benefit cost to the authority. Therefore an amount of £17,939 has been allowed for in the 2011/12 budgets.

16. It is considered that the withdrawal of the local scheme focused on this small number of people would cause undue hardship. It is however for council assembly to decide the level of pension that should be disregarded. This could range from the statutory relief of £10.00 to the total level of pensions. The level of pensions for 2011/12 will be £120.95 for standard war widows' pensions and £160.06 for war disablement pensions. Each year the council has to decide formally whether to continue with the existing scheme or to make changes to it. Council assembly is recommended to agree the continuation of the local scheme.

Community impact statement

17. The community impact implications will be addressed in the policy and resources report (general revenue fund) which will be considered by cabinet on 15 February 2011.

Consultation

18. The council has complied with the requirements of Section 65 of the Local Government Finance Act 1992 by consulting with business rate payers on spending plans for the forthcoming year.

SUPPLEMENTAL ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

19. The council is required to agree the formal resolution setting the council tax for 2011/12, and approve the local scheme for housing benefit and council tax benefit in 2011/12 that must be approved annually.

20. The Local Government Finance Act 1992 s.30 (the LGFA 1992) requires that Council Assembly sets an amount of council tax for each financial year and for each category of dwellings in its area. The amount is calculated by taking the aggregate of the calculations made by the authority under Sections 32 to 36, together with the precept issued to the authority by the Greater London Authority. Preceptors must issue their precepts before March 1 preceding the financial year to which they relate.

21. Pursuant to section 30 (7) of the LGFA 1992 no amount may be set before the earlier of the following: (a) 1st March in the financial year preceding that for which the amount is set; (b) the date of the issue to the authority of the last precept capable of being issued to it (otherwise than by way of substitute) by a major precepting authority for the financial year for which the amount is set. Section 30 (9) of the Act states that a purported setting of an amount, if done in contravention of subsection 30 (7) shall be treated as not having occurred.

22. Under section 39 of the LGFA 1992, the Greater London Authority ('GLA') is defined as a 'major precepting authority'. The GLA is intending to set its precept on 23 February 2011 and issue the same to the Council later that day. Council Assembly will be meeting on 22 February 2011. Whilst the budget calculations can still be made under sections 32-36 of the Act in advance of receiving the precept, as the Council is expressly prohibited from setting the council tax until the GLA has issued its precept, this means the council tax can not be set on 22 February.

<u>Section 67 of the Local Government Finance Act 1992</u>

23. Section 67 (2) (c) of the LGFA 1992 states that only the authority can set an amount of council tax for the financial year. However section 67 (3) of the LGFA 1992 provides that where the authority so directs a committee of the authority appointed by it for that purpose can carry out this function. The authority itself, not the committee, must specify the number of members of the committee and fix the length of term of the committee. The members of the committee must also all be members of the authority and not co-opted individuals.

24. Council Assembly can appoint the committee on 22 February pursuant to Part 4 of clause 3A of the Constitution.

Restrictions on Voting Under Section 106 of the Local Government Finance Act 1992

25. Section 106 of the Local Government Finance Act applies at any time to a member of an authority, if at that time the member is due to pay council tax payments which have remained unpaid for at least two months.

26. The payments to which the section applies are any type of either sole or joint and several liability for council tax, and any failure to pay any agreed sum of council tax. Therefore members are advised that this section is likely to apply to them if they are currently two months in arrears of any amounts of council tax, even if they have made any special contractual arrangement with the council to pay off the arrears.

27. If this section applies to any member, he/she at the relevant meeting and as soon as practicable after its commencement, must disclose the fact that the section applies and not vote on any question with respect to this matter.

28. The relevant meetings are those at which any of the following are the subject of consideration, namely:

(a) "any calculation required by chapter 111, 1V, V of part 1 of the 1992 Act".

The only calculations likely to be made by this authority are those under chapter 111 of part 1 of the act, (chapter 1V relates to precepting and chapter V limitations on council tax (i.e. capping)
The chapter 111 calculations include the calculation of the budget requirement, basic amount of tax, the additional requirements because of the special trust funds, the calculation of the tax for the different valuation bands and the basic amount of council tax to be set under Section 30.

(b) "Any recommendation, resolution or other decision which might affect the making of any such calculation"

This is an extremely wide wording and would extend well beyond merely setting the budget. It applies to virtually any matter where the financial implications directly or indirectly might affect the calculations concerning the council tax. It would therefore apply to decisions concerning the level or extent of services as well as the expenditure, receipt or forgoing of any money.

(c) "the exercise of any function under Schedules 2-4 of the 1988 and 1992 Act"

The functions under either the 1988 or 1992 Acts concern the administration and the enforcement of community charge and council tax respectively.

29. Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for a member to vote when prohibited from doing so or to fail to make the necessary disclosure. There is a statutory defence, with the onus of proof on the member, to prove that he did not know that the section applied to him or her at the time of the meeting or that the matter in question was the subject of

consideration at the meeting. Prosecutions shall not be instituted except by or on behalf of the Director of Public Prosecutions.

Housing & Council Tax Benefits - Local Schemes

30. Council assembly is also being asked to agree the continuation of the disregard of war disablement pensions and war widows' pensions for benefit purposes.

31. By virtue of Section 139 of the Social Security Administration Act 1992 (as amended by the council tax legislation (the Local Government Finance Act 1992) the authority may modify any part of the housing or council tax benefit scheme administered by the authority (although the original scheme is determined by the Secretary of State),

    (i) So as to provide for disregarding, in determining a person's income the whole or part of any war disability pension or war widows' pension payable to that person or to his partner or to a person whom he is polygamous married.

    (ii) Any such modifications may be adopted by resolution of the authority, and the authority may also by resolution revoke or vary such resolution to such an extent as it may be prescribed.

32. The council is required to make this decision annually.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Council Tax Base for 2011/12 report	160 Tooley Street London SE1P 5LX	John Braggins 020 7525 (5)7489
Policy and Resources Strategy – The 2011/12 Revenue Budget (The Budget and Policy Framework)		Cathy Doran 020 7525 (5)4396

APPENDICES

No.	Title
Appendix A	Council Tax Setting Committee – Proposed role and functions, matters reserved and political composition

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Finance Director	
Report Author	John Braggins, Strategy Accountant	
Version	Final	
Dated	10 February 2011	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Strategic Director of Communities, Law and Governance	Yes	Yes
Finance Director	Yes	Yes
Cabinet Member	Yes	No
Date final report sent to Constitutional Team		10 February 2011

APPENDIX A

COUNCIL TAX SETTING COMMITTEE

Role and functions

This committee is established under section 67 of the Local Government Finance Act 1992 with the following role and functions:

1. To note the annual budget 2011/12 for Southwark services agreed by council assembly.

2. To note the Greater London Authority precept level.

3. To set an amount of council tax for the financial year 2011/12.

4. To agree the formal resolution for council taxes in 2011/12

Matters reserved for decision

The matters reserved for decision to this committee are as set out in the roles and functions.

Notes:

1. The term of office for the committee shall be fixed at no later than 31 March 2011.

2. This committee is proposed to be established by council assembly on 22 February 2011 with a membership of seven councillors. The political composition of the committee is:

   - Labour 4 places;
   - Liberal Democrat 2 places; and
   - Conservative 1 place.

   Each political group is entitled to nominate a number of reserve/substitute members in accordance with council assembly procedure rule 4.5(1).[1]

[1] In establishing this committee, council assembly on 22 February 2011 is invited to agree the membership of the committee to enable the committee to meet in accordance with the proposed timetable. Otherwise wherever an appointment of a member of a committee falls to be made in accordance with the wishes of a political group to whom the seat has been allocated, council assembly procedure rule 4.6(2) states that all appointments to the membership of committees must be submitted in writing to the monitoring officer. A minimum of five clear working days notice normally must elapse from the date of receipt of such notices before any appointments become effective.

Item No: 3.2	Classification: Open	Date: 22 February 2011	Meeting Name: Council Assembly
Report title:		Treasury Management Strategy 2011/12 Including - Annual Investment Strategy, Prudential Indicators, and Annual Minimum Revenue Provision Statement	
Wards or Groups affected:		All	
From:		Finance Director	

RECOMMENDATIONS

1. That the council assembly:

   (i) note the treasury management strategy 2011/12 to be managed by the finance director under financial delegation.

   (ii) agree the annual investment strategy 2011/12 set out in appendix A, keeping capital preservation as a key objective, in line with Government guidance on investments.

   (iii) agree prudential indicators covering capital finance, borrowing and cash management for the years 2011/12 to 2013/14 set out in appendix B.

   (iv) agree the annual minimum revenue provision statement 2011/12, which sets aside prudent sums from revenue to reduce debt, set out in appendix C.

   (v) agree a capital allowance of £168m, described in paragraphs 22 - 24, enabling the council to continue retaining capital receipts for affordable housing and regeneration.

BACKGROUND INFORMATION

2. Each year the council assembly agrees a treasury management strategy to manage it investments and debt. The investments represent balances, provisions and working capital to support the council's financial management and the debt funds the capital spending carried out in the past or due to be carried out in the near future. Investment and borrowing activity must be carried out in accordance with the Local Government Act 2003 and have regard to Government guidance on investments and sums set-aside as minimum revenue payment to repay debt as well as the Treasury Management in the Public Services Code of Practice and the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy, CIPFA.

3. Whilst the finance director is responsible for all executive and operational decisions on borrowings and investments under financial delegation, the council assembly remains responsible for approving a debt and investment management strategy, and prudential indicators on capital finance, which includes limits on investments and borrowing before the start of each year. The indicators help assess the affordability, prudence and

sustainability of financing activities and are part of a self-regulating regime brought in by the 2003 Act. An annual minimum revenue provision statement on sums to be set aside from revenue to reduce debt also needs agreeing each year.

4. The report further asks for a formal decision concerning capital allowances, which enable the council to carry on retaining receipts for affordable housing and regeneration that would otherwise pass to the Government under pooling arrangements. The council relies on securing these exemptions from pooling to invest in affordable housing and regeneration.

5. In 2010 additional reporting on treasury management was put in place, (following publication of CIPFA's update to its Treasury Management in the Public Services Code of Practice). As well as this annual strategy report, the council assembly also receives a mid year report and an annual outturn report after the end of the year. Quarterly updates are presented to cabinet and the audit and governance committee is asked to review and scrutinise treasury policies and strategy.

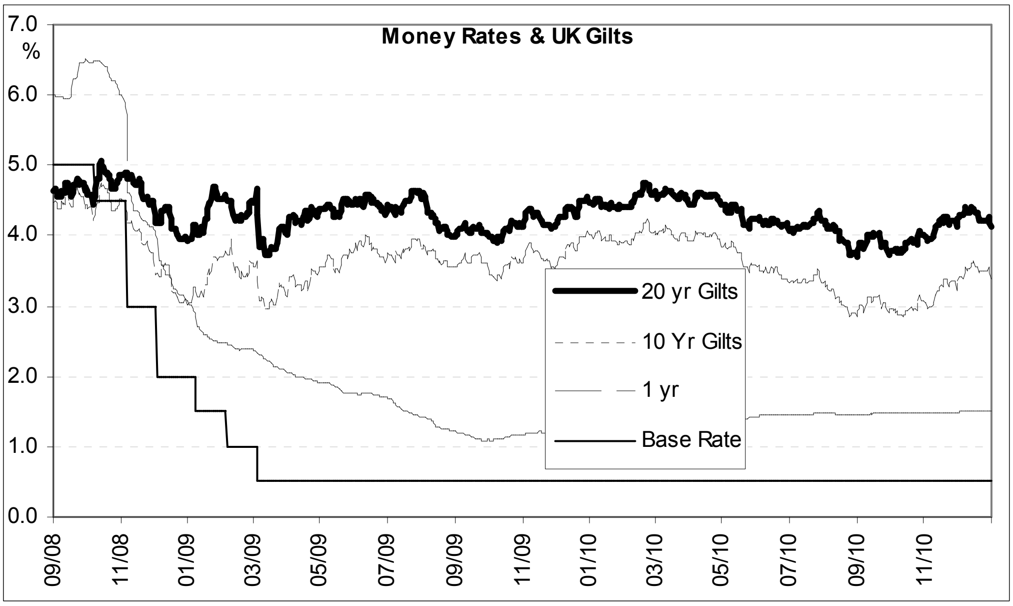
KEY ISSUES FOR CONSIDERATION

Treasury Management Strategy: Borrowing and Investments

Background - Developments in Financial Markets

6. Treasury management was carried out against a background of a slow recovery in major advanced economies, which followed a deep recession that created severe financial pressure not only for households and business but also for governments. In the US and UK expectations of further monetary stimulus initially helped lower government bond yields. But from November 2010 as market focus shifted to risks from adverse inflationary developments, yields experienced upward pressure; refer chart below. In the euro area, member states facing deteriorating economic prospects saw sovereign yields increase further and for Ireland market pressure was so high that it had to submit to an EU-IMF rescue package.

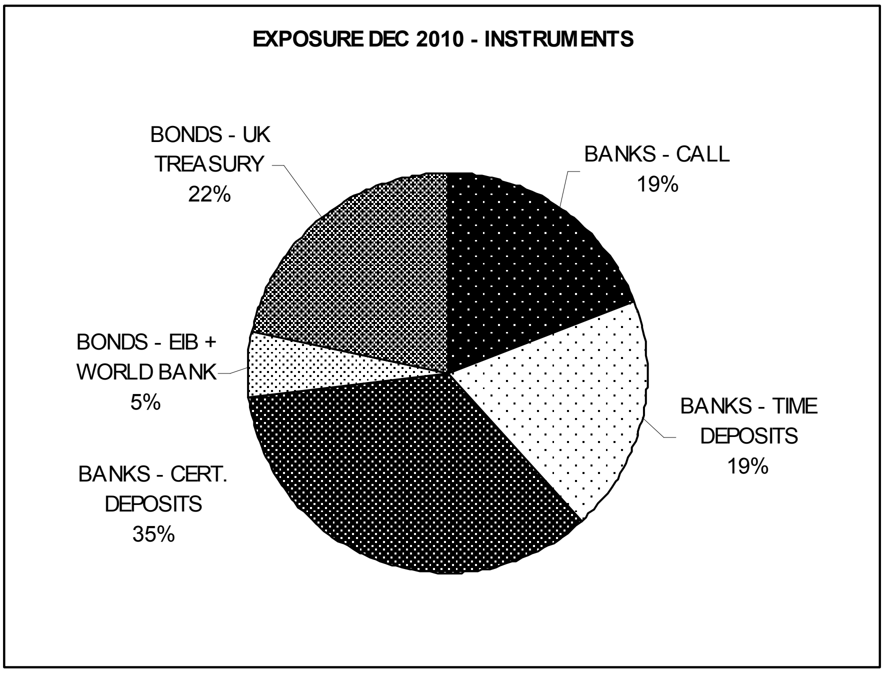
7. In the UK, the slow pace of growth came before a programme of substantial multi-year public spending cuts. In itself, the scale of the tightening has a dampening effect on the recovery, but against this the expansionary monetary policy which has been in place since the financial crisis intensified in September 2008 continues to benefit growth. Further monetary stimulus in the form of quantitative easing now seems less likely unless fiscal tightening has a bigger negative impact on growth than the market believes. Base rates, which have been almost nil since March 2009, are not expected to rise until the second quarter of 2011 at the earliest. But bond yields remain at risk, as investors anticipate withdrawal of monetary stimulus and seek protection from stronger inflationary developments.



Investment Management Position and Annual Investment Strategy

8. The sum held in investments at the end of December 2010 was £239m and is managed by an in-house operation and three external investment management firms: Invesco Asset Management Ltd, AllianceBernstein Ltd and Aberdeen Fund Management Ltd.

9. External managers provide access to liquid instruments and maturities beyond one year and expertise to help the council enhance long term returns, with capital preservation, liquidity, low market risk and prudence as priorities all within an agreed investment strategy. The exposure to long investments takes the form of liquid bank deposits and bonds issued or guaranteed by the UK Government or issued by multilateral banks. In-house funds focus on meeting day to day cash volatility using a number of call accounts and short term deposits. The investment holdings and instrument analysis at the end of December 2010 is set out below.



EXPOSURE - DEC 2010 COUNTERPARTY AND RATINGS										
Exposure £m	Fund					Fitch Ratings				
Counterparty	ABERDEEN	ALLIANCE BERNSTEIN	INVESCO	IN-HOUSE	Total	Long	Short	Sup-port	Sovereign	Sovereign Rating
BARCLAYS BK	6.5	0.5	6.5		13.5	AA-	F1+	1	UK	AAA
BANQUE NATIONAL DE PARIS		0.5			0.5	AA-	F1+	1	FRANCE	AAA
CREDIT AGRIC CIB	4.3		6.5		10.8	AA-	F1+	1	FRANCE	AAA
CREDIT INDUST ET COMRCL	5.4				5.4	AA-	F1+	1	FRANCE	AAA
DEUTSCHE BK				10.0	10.0	AA-	F1+	1	GERMANY	AAA
EUROPEAN INV BK	3.3	7.4			10.7	AAA	F1+		SUPRANATIONAL	AAA
FORTIS BK	5.1				5.1	A+	F1+	1	BELGIUM	AA+
GLOBAL TREAS FUNDS-MMF				5.0	5.0	AAA	F1+		GLOBAL	
HSBC	0.1	0.1	0.5		0.7	AA	F1+	1	UK	AAA
ING BK	5.0	0.3	3.4		8.7	A+	F1+	1	NETHERLANDS	AAA
INT BK RECONST DEVT		2.3			2.3	AAA	F1+		SUPRANATIONAL	AAA
LLOYDS TSB/BK SCOTLAND	6.0	0.5	6.5	15.0	28.0	AA-	F1+	1	UK	AAA
NATIONWIDE BSOC	3.2	0.5			3.7	AA-	F1+	1	UK	AAA
NORDEA BK FINLAND		0.5			0.5	AA-	F1+	1	FINLAND	AAA
RABOBANK		0.5			0.5	AA+	F1+	1	NETHERLANDS	AAA
RBS/NATWEST				33.9	33.9	AA-	F1+	1	UK	AAA
SANTANDER UK	6.5			15.0	21.5	AA-	F1+	1	UK	AAA
SOCGEN		0.5	6.5	10.0	17.0	A+	F1+	1	FRANCE	AAA
SVENSKA		0.6	6.5		7.1	AA-	F1+	1	SWEDEN	AAA
UBS	2.6				2.6	A+	F1+	1	SWITZERLAND	AAA
UK TREASURY	2.1	35.9	13.6		51.6	AAA	F1+		UK	AAA
Total	50.2	50.1	50.0	88.9	239.1					

10. In September 2010 the sum managed externally was reduced by £20.9m and brought in-house to ensure that cash demands over the course of the year can readily be met. This brings the sum managed externally down to £150m. Further sums may be brought in-house in 2011/12 if needed.

11. The average return for the 9 months to December 2010 was 0.79% against part year average base rates of 0.38%. The return reflects past activity and as investments mature and are reinvested, future returns are expected to remain low - reflecting uncertain economic prospects.

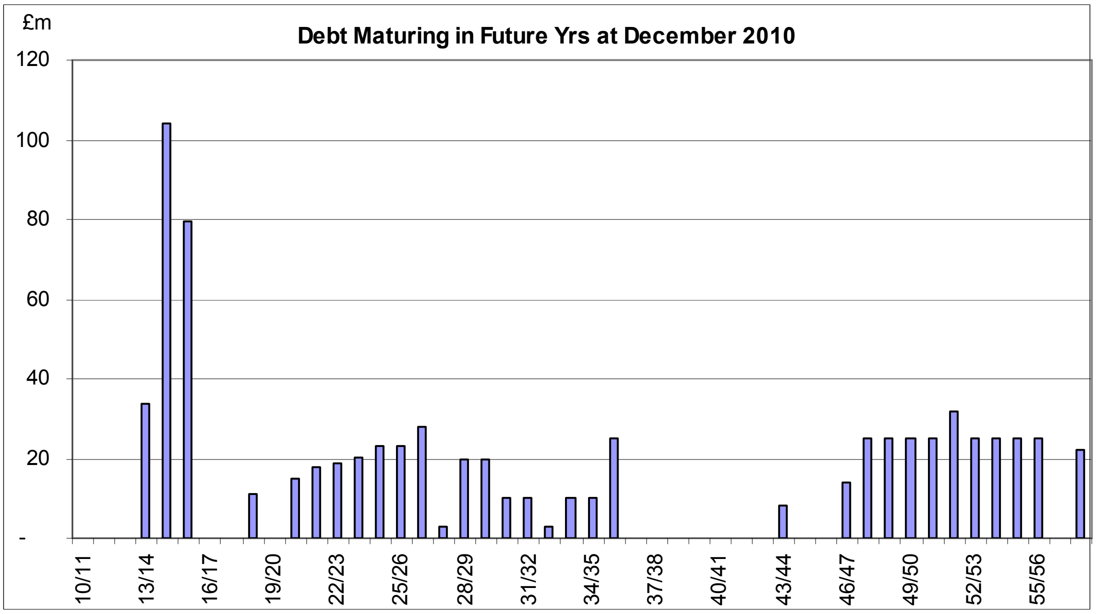
12. Throughout 2010, when market concern over sovereign risk in some euro countries increased, a cautious approach to council lending was maintained. No investment experienced credit loss and the focus remained on preserving capital and ensuring liquidity. Bank exposure was with major entities and in maturities not exceeding one year. It took the form of fixed term deposits, certificate of deposits (liquid short term deposits), call accounts or money market funds. Longer maturities took the form of UK government debt and supranational bonds such as with the IBRD (the World Bank) or the European Investment Bank.

13. This cautious approach to lending with focus on capital preservation and liquidity will continue into 2011/12. An investment strategy encompassing this approach and allowing the finance director flexibly to respond prudently to market developments is set out in appendix B. It is set out according to Government guidance on local authority investments and classifies investments into specified and non-specified investments. Specified investments are investments in sterling not more than one year in high rated institutions, the UK Government or local authorities. Non-specified investments are all other investments. The 2011/12 annual investment strategy requiring council assembly approval is set out at appendix B. It is the same as the annual strategy currently in force, but does require approval each year. Under Government guidance the strategy is to be published on the council's website.

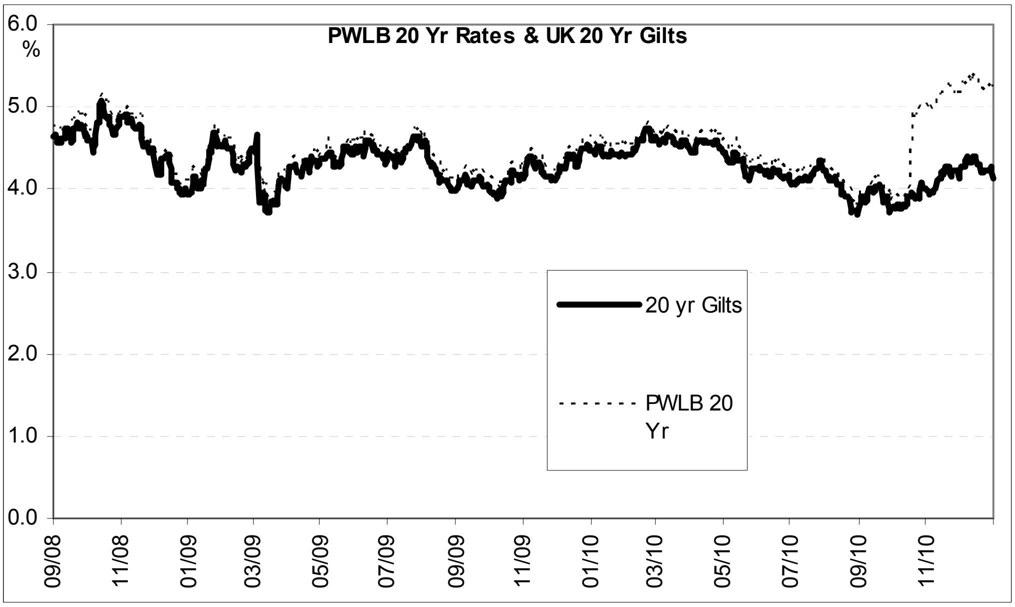
Debt Management Position and Strategy

14. The debt outstanding at the end of December 2010 was £762m and no new loans were taken in 2010. The debt represents sums borrowed to pay for current and past capital

expenditure. All debt is at fixed rates from the Public Works Loans Board (PWLB, HM Treasury's local authority lending arm). The average rate of interest across all loans is 6.94% and reflects a long period between the 1970's and early 1990's, unlike now, when high capital spending and debt funding coincided with years of high inflation and high interest rates. The chart below sets out the amounts maturing in each year and the earliest that loans fall for repayment is 2014. Loans falling for repayment are typically replaced with new loans unless they have been refinanced earlier.



15. Until recently local authorities were able to borrow at rates close to the rates the Government itself borrowed at. However following the comprehensive spending review in October 2010, the Government decided that councils will now have to pay one-percent more for any new borrowing taken from the PWLB. A chart showing how the margin above Government yields has changed is set out below.



16. The change does not affect the rate on existing loans but does mean that new loans to finance the capital programme will be more expensive than they would otherwise have been. The cost of refinancing maturing loans, for example the £200m or so maturing

between 2014 and 2016, would also be higher than otherwise – although the actual rate of interest between 2014 and 2016 will also be subject to developments in financial markets where the risk is that rates move higher from current levels than remain at historically low levels.

17. Interest rate risk is further increased by reforms to the system for supporting the Housing Revenue Account's (HRA) confirmed in the October 2010 comprehensive spending review and the 2010 Localism Bill. Currently around 80% of the debt is attributable to the HRA and reflected in subsidy at the actual average rate of interest prevailing each year. The reforms which come into effect in 2011/12 will replace the current national system for subsidising council housing with a locally run system. Under it, councils will keep their rental income and use it locally to maintain their homes. This will follow a one-off debt adjustment between the Government and each council. In Southwark's case, as the rental income is currently insufficient to maintain the homes and service the debt, there will be one-off a reduction in debt, bringing debt service costs and running costs closer to rental income. The current system compensates Southwark for changes in the average rate of interest on its debt, but under the new system, the effects of interest rate changes will have to be absorbed entirely by rental income.

18. This increased sensitivity to interest rates will need careful management and the finance director will in 2011/12 keep under review options for mitigating risk. Account will be taken of interest rate expectations when any new debt is taken to pay for capital spend or any prudent debt refinancing is carried out to manage interest rate exposure from existing debt or HRA reforms. Any refinancing that may prudently be carried out, under existing arrangements for financial delegation, will be within a risk controlled framework as well as prudential indicators and limits discussed below.

Prudential Indicators

19. Prudential indicators consist of a series of estimates and limits to give a general picture of the affordability, prudence and sustainability of capital finance and treasury management. The indicators are drawn from the Prudential Code for Capital Finance for Local Authorities and the Treasury Management in the Public Services Code of Practice. The indicators are set out in detail in appendix B and those needing council assembly approval are the ones for 2011/12 to 2013/14. Approval will enable the finance director to carry out his responsibilities in this area. The indicators will be updated over the course of 2011/12 to reflect activity and latest developments in housing revenue account reforms. One of the indicators is the authorised limit on debt and as last year this limit will be treated as increased for any private finance initiative and leases that under accounting rules applying in 2010/11 may have to be reclassified as long term liabilities.

Annual Minimum Revenue Provision Statement

20. When the council funds its capital programme through borrowing (rather than from asset sales, grants or revenue contributions), a minimum revenue provision (MRP) is made each year to pay-off some of the borrowing. The council has been making these provisions as required by the Local Authorities (Capital Finance and Accounting) regulations issued under the Local Government Act 2003. However from April 2008 these regulations were replaced by statutory guidance.

21. The MRP policy for 2011/12 recommended for approval is set out as appendix C and is the same as the one for the current year 2010/11. The main idea is for the provision to be over a period bearing some relation to that over which the asset continues to provide a service, particularly in relation to assets funded out of prudential or self-financed borrowing, as opposed to borrowing supported by the Government.

Capital Allowances

22. Under the Local Government Act 2003, a proportion of the proceeds from HRA asset sales are paid over to a Government 'pool'. The percentage paid differs according to the type of receipt: 50% for land and 75% for buildings.

23. Receipts from social homebuy, non right to buy dwellings, land, shops and other assets can be exempt from pooling provided the money is used in affordable housing or regeneration programmes. This exemption does not apply to right to buy sales. The amount which may be exempt from pooling is known as the capital allowance. Council spending relies on securing these exemptions from pooling.

24. The capital allowance agreed by council assembly in February 2010 was £170m and now requires updating to reflect receipts of £30m that have drawn against it and additional planned expenditure on affordable housing and regeneration of £28m bringing the total allowance down to £168m. The council assembly is therefore asked to agree a capital allowance of £168m, ensuring that capital receipts that would otherwise pass to the Government under pooling continue to be retained for affordable housing and regeneration.

SUPPLEMENTAL ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

25. The constitution determines that agreeing the treasury management strategy is a function of council assembly [Part 3A].

26. The Local Government Act 2003 and supporting regulations require local authorities to determine annual borrowing limits and have regard to the Prudential Code for Capital Finance, and the Treasury Management in the Public Services Code of Practice, both published by the Chartered Institute of Public Finance and Accountancy, when considering borrowing and investment strategies, determining or changing borrowing limits or prudential indicators.

27. Section 15(1) of the 2003 Act requires a local authority "to have regard (a) to such guidance as the Secretary if State may issue". This guidance is found in the Department of Communities and Local Government Guidance on Local Authority Investments updated March 2010 and there is statutory guidance on the Minimum Revenue Provision (MRP) produced under amendments made to section 21(1A) of the 2003 Act by section 238(2) of the Local Government and the Public Involvement in Health Act 2007.

28. Regulations under the 2003 Act specify that the council may retain certain capital receipts provided they are used in affordable housing or regeneration. Council assembly is being asked to agree the capital allowance to enable receipts to be retained by the council.

29. Members are advised to give approval to the recommendations contained in paragraph one of this report ensuring compliance with Government guidance and CIPFA's codes.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
Prudential Code for Capital Finance in Local Authorities - CIPFA. Treasury Management in the Public Services Code of Practice - CIPFA DCLG Guidance on Local Authority Investments. Guidance on Minimum Revenue Provision - Issued by the Secretary of State – SI No. 2008/414	Finance and Resources Department, 160 Tooley Street London SE1 2TZ	Dennis Callaghan, Chief Accountant (020 7525 4375)

APPENDICES

No.	Title
Appendix A	Annual Investment Strategy 2011/12 – Recommended for Approval
Appendix B	Prudential Indicators Recommended for Approval
Appendix C	Annual Minimum Revenue Provision Statement 2011/12 – Recommended for Approval

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Jennifer Seeley, Deputy Finance Director	
Version	Final	
Version Date	9 February 2011	
Key Decision	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Strategic Director of Communities, Law & Governance	Yes	Yes
Final Report Sent to Constitutional Team		9 February 2011

APPENDIX A

ANNUAL INVESTMENT MANAGEMENT STRATEGY 2011/12 – RECOMMENDED OR APPROVAL

BACKGROUND

The guidance on local government investments produced by the Department of Communities and Local Government and updated in March 2010 requires local authorities to produce an annual investment strategy each year. The guidance promotes prudent management of cash with security and liquidity as priorities, while not ignoring yield.

Investments are grouped in two broad categories: specified and non-specified investments. Specified investments are in sterling, have high security and liquidity and are not longer than 1 year. Non-specified investments are all other investments (excluding those forming part of a local authority pension fund) which the local authority decides, having considered their risks and benefits, are prudent, subject to exposure limits. There is no intention to discourage use of non-specified investments - they help diversify and improve returns, and in the case of government bonds are highly liquid and exposure to default risk is negligible.

The annual investment strategy for 2011/12 drawing on the guidance and requiring council assembly approval is set out below. Investment exposure has always been biased in favour of major banks, where the expectation of support, in the event it were needed, is high. This is underlined in the credit criteria, which is supplemented with sovereign rating and support rating.

The council has the benefit of external expertise in the form of fund managers to help manage its exposure to longer investments actively and ensuring that capital preservation and liquidity remain high priorities. The strategy is to be published on the council's website.

ANNUAL INVESTMENT STRATEGY 2011/12

INVESTMENT OBJECTIVES

1.1 The council's investment objectives are to preserve principal, provide liquidity and secure a reasonable return. Cash investments may only be placed with specified and non-specified investments, and be managed prudently.

1.2 Specified investments, as detailed below, are investments up to 1 year with high liquidity and credit qualities. Non-specified investments, as set out below, are investments that exceed 1 year and so potentially more responsive to liquidity, credit, and market factors. Prudent exposure to non-specified investments helps raise the level and sources of investment returns over the long term. Exposure to loan or share capital should be avoided as should investments not denominated in GBP Sterling.

1.3 The finance director is responsible for this strategy and its management. Fund managers shall assist in advising or executing elements of the strategy. As at February 2011 the council has three fund managers: AllianceBernstein Ltd, Aberdeen Fund Management Ltd and Invesco Asset Management Ltd.

2 CREDIT REQUIREMENTS

2.1 Credit risk is the risk that the institution with whom investments are held fails to meet its obligations to investors. To contain exposure to this risk, these ratings shall be consulted:

a) Sovereign rating,
b) Support rating, and
c) Short and long term rating

The minimum ratings are set out in the tables below and rating definitions are attached at annexe 1 to this strategy. While these ratings are high and above the minimum regarded as investment grade by ratings agencies and indicate a low risk of default, it should be remembered that ratings may not always keep up with developments in turbulent markets (and do not in any case represent investment recommendations). Therefore, in managing exposure, attention should also be paid to capital strength and developments in the financial and credit markets. Exposure to risks should always be managed prudently and with due care and attention.

i) Sovereign Rating

Sovereign Rating		
Rating Agency	**Minimum Long Term Sovereign**	**Minimum Short Term Sovereign**
Fitch Ratings	AA-	Issuer: F1+

ii) Support Rating

Support Rating	
Rating Agency	**Minimum Support Rating**
Fitch Ratings	2

iii) Short and Long Term Rating
- in addition to Sovereign and Support Rating

Issuer or Issue Rating, Minimum from one of three Rating Agencies				
Rating Agency	**Minimum Short Term Rating**	**Minimum Long Term Rating**	**Maximum exposure up to 1 year £m**	**Maximum exposure 1 year to 3 years £m**
Fitch Ratings	F1+	AA-	40	20
Moody's Investor Services	P1	Aa3	40	20
Standard & Poor's	A-1+	AA-	40	20
Fitch Ratings	F1	A+	40	0
Moody's Investor Services	P-1	A1	40	0
Standard & Poor's	A-1	A+	40	0

iv) Money Market Fund Rating

Money Market Fund Rating			
Rating Agency	**Minimum Fund Credit Rating**	**Minimum Fund Value £m**	**Maximum exposure £m**
Fitch Ratings	AAA	1000(*)	50
Moody's Investor Services	Aaa	1000(*)	50
Standard & Poor's	AAA	1000(*)	50

* - The minimum size for funds backed by UK Government issued or guaranteed debt shall be £200m.

2.2 Ratings shall be reviewed frequently and at least monthly. In the event of adverse rating changes, investments may be recalled prior to maturity where it would be prudent to do so.

2.3 Exposure to any one institution shall be diversified as is consistent with securing a reasonable return.

2.4 Credit requirements shall not apply to investments issued or guaranteed by UK Government entities, nationalised entities, supranational entities or to local authorities where credit risk is very low. There shall be no upper limit on exposure to the UK Government for credit risk purposes and the upper limit on exposure to any one UK local authority or a supranational body shall be £40m. (Local authorities are not rated, but the Local Government Act 2003 provides sanctions in the event that an authority fails to meet its liabilities to lenders and exposure to local authorities helps diversify investments in a safe way when necessary). The limit for any one nationalised entity shall be £40m, but may be increased where the entity is a major bank to protect the council's interests.

2.5 Together with other large UK banks, the Royal Bank of Scotland, RBS, (of which National Westminster Bank is a subsidiary) and HSBC Bank are major banks of systemic importance to the UK financial system. RBS is now majority owned by the UK Government and in common with other major UK banks both RBS and HSBC have access to central bank liquidity arrangements if needed. RBS is critical to the day to day financial operations of the council and HSBC provides custodial services for investments managed by the council's external fund managers. Against this support likelihood and in the interest of effective management of financial operations of the scale that the council has, a £75m limit is in place for RBS and HSBC.

2.6 The finance director shall have discretion to vary minimum rating and limits in response to market developments and operational requirements where prudent to protect the council's interests

3 OVERALL LIQUIDITY AND MATURITY CONSTRAINTS

3.1 The first call on investments shall usually be cash flow requirements and normally not less than £60m of overall investments shall be held in maturities not exceeding 1 year.

3.2 Overall investments shall only have a low or low to moderately low sensitivity to market factors. As a guide, the average maturity of investments shall be below 3 years and actual exposure will depend on interest rate expectations and credit quality.

4 SPECIFIED INVESTMENTS

4.1 Specified investments shall consist of the following categories of investments, subject to being denominated in sterling, meeting credit requirements set out above and not exceeding 1 year.

Specified Investments - in Sterling, meeting credit requirements and not beyond 1 year	
A	Bonds, bills, term deposits and accounts with the UK Government (or guaranteed by it) or UK local authorities.
B	Fixed term deposits, accounts, certificates of deposits, commercial paper and senior unsubordinated notes and bonds issued by banks and UK building societies
C	Money Market Funds AAA/Aaa rated with stable asset values

4.2 The specified investments have high capital preservation and liquidity characteristics, and as such there shall be no upper limit on sums held in them as a whole, though exposure to any one institution will be subject to credit limits set out in paragraph 2. It is further expected that overall exposure shall be biased towards major institutions, where the expectation of support, if it were needed, is high.

4.3 However market conditions may also justify prudent exposure to longer term non-specified investments.

5 NON-SPECIFIED INVESTMENTS

5.1 Non-specified investments shall consist of the following categories of investments, which shall be in Sterling and meet applicable credit requirements.

Non-specified Investments - maturities beyond 1 year, in Sterling and meeting credit requirements	
A	Bonds issued or guaranteed by the UK Government or by supranational bodies
B	Fixed term deposits and certificates of deposits, senior unsubordinated bonds and notes issued by banks or UK building societies, with no interest or principal conditionality.

5.2 Details concerning the use, characteristics and limits applying to non-specified investments are set our below. The upper limit on exposure to non-specified investments as a whole shall be 50% of all investments. Overall liquidity, market and 3 year average constraints shall also be observed. In managing exposure to non-specified investments expertise and advice will be drawn on as necessary.

5.3 The non-specified investments are managed with help from external fund managers. Limits are placed to contain overall credit exposure. And any exposure to non-specified investments will in practice be subject to market and credit conditions and to being satisfied about the long run credit quality of the institution as well as the merits of the investment.

Non-specified Investments- Usage, Characteristics and Limits	
A	**Bonds issued by or guaranteed by the UK Government or by supranational bodies** *i) Typical usage* - To capture additional yields that may be available from investing longer from time to time, - To benefit from short and long run rate expectations. *ii) Characteristics* - These bonds are highly liquid and of high credit quality, however prices are sensitive to expectations about the future course of interest rates, inflation and financial conditions generally. As well as moving favourably, prices can move adversely, risking income – the longer the bond the more sensitive its price to these factors. But the principal is protected if held to maturity. Limits are placed to contain exposure to this risk. *iii) Limits* - No more than 50% of investments may be placed in this category, and exposure shall be actively managed to contain market risks. - No one bond may have a maturity exceeding 10 years or the equivalent benchmark. No maturity limit applies to index linked or variable rate bonds. - Bank debt guaranteed by the UK Government shall fall within this category and exposure to such debt shall be limited to £40m per entity and a maximum term of 10 years.

<table>
<tr><th colspan="2">Non-specified Investments- Usage, Characteristics and Limits</th></tr>
<tr><td>B</td><td>Fixed term deposits and certificates of deposits, senior unsubordinated bonds and notes issued by banks or UK building societies, with no interest or principal conditionality.

i) Typical usage

- To capture additional yields over and above government issued debt that may be available from investing longer from time to time,

- To benefit from short and long run rate expectations.

ii) Characteristics

- Investments in this category are issued by the high rated banks and building societies, but as credit certainty tends to be lower for longer periods, careful analysis is necessary to ensure no undue risks are taken.

- Prices are sensitive to expectations about the future course of interest rates, inflation and financial conditions generally. As well as moving favourably, prices can move adversely, risking income – the longer the bond the more sensitive its price to these factors.

- Investments in this category are negotiable, apart from fixed term deposits which are only repaid on maturity.

iii) Limits

- No more than 20% of investments shall be placed in this category and no one investment shall exceed 3 years in maturity. All investments should be actively managed.
- Exposure will in practice be subject to market and credit conditions and being satisfied about the long run credit quality of the institution as well as the investment itself. Capital preservation would remain a priority.
- Bank debt guaranteed by the UK Government shall fall within category A of non-specified investments.</td></tr>
</table>

Annexe 1

Rating Definitions

Ratings are research based opinions of rating companies (Fitch Ratings, Moody's and Standard & Poor's) on the ability of an entity or security to meet financial commitments such as interest, preferred dividends and repayment of principal in accordance with their terms. Ratings do not constitute recommendations to buy, sell or hold any security, nor do they comment on the adequacy of market price, or the suitability of any security for a particular investor.

Fitch Long Term Rating (including Long Term Sovereign Rating)

AAA: Highest credit quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

Fitch Short Term Rating (Including Short Term Sovereign Rating)

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream, and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation.

F1: Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2: Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments.

F3: Fair.

The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' obligation rating category.

Annexe 1

FITCH SUPPORT RATINGS

Support ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

1: A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question.

2: A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question.

3: A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so.

Moody's Long Term Rating

Aaa: Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

Aa: Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A: Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

Moody's Short Term Rating

Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations.

P-1: Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

P-2: Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

Annexe 1

Standard and Poor's (S&P) Long Term Rating

AAA: An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA: An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A: An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Standard and Poor's (S&P) Short Term Rating

A-1: A short-term obligation rated A-1 is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

A-2: A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

APPENDIX B

PRUDENTIAL INDICATORS – RECOMMENDED FOR APPROVAL

PRUDENTIAL INDICATORS

1. Capital finance, borrowing and investment arrangements are brought together in a series of prudential indicators (estimates and limits) to give a general picture of the affordability, prudence and sustainability of financing activities. The indicators and limits are grouped into three broad areas: affordability, prudence and treasury management.

2. The indicators are drawn from the Prudential Code on Capital Finance for Local Authorities and the Treasury Management in the Public Services Code of Practice both published by CIPFA and updated in November 2009. The Local Government Act 2003 requires that councils have regard to these codes.

3. The 2009/10 indicators are shown as actuals, the 2010/11 show latest projections and the 2011/12 to 2013/14 are future estimates or limits. The indicators needing approval are the ones for 2011/12 to 2013/14. Estimates will be updated over the course of 2011/12 to reflect latest activity and developments in housing revenue account reforms.

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

INDICATOR ONE: ESTIMATES OF RATIO OF FINANCING COSTS TO NET REVENUE STREAM

The financing ratio reflects financing costs arising from capital expenditure funded from borrowing and income from cash balances as a proportion of the net revenue stream. The ratio rises as interest income falls or debt costs rise and is also subject to movements in the net revenue stream. The different level of the HRA and GF ratios reflects the different way the two services are organised under law.

Financing Ratios	2009/10 Actual	2010/11 Latest Projection	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**
HRA	33.0%	33.0%	**33.0%**	**33.0%**	**33.0%**
GF	2.5%	3.3%	**3.3%**	**3.0%**	**2.5%**

INDICATOR TWO: ESTIMATES OF THE INCREMENTAL IMPACT OF CAPITAL INVESTMENT ON THE COUNCIL TAX AND HOUSING RENTS

Capital spend funded through un-supported borrowing may raise budgetary requirement and so place additional demand on council tax or rents. Currently no increase in budgetary requirement is proposed as a result of the capital programme and no increase in council tax or rents is being sought. The incremental increase in council tax or HRA rents recommended for approval are set out below.

Notional Rent or Council Tax Increases	2010/11	**2011/12**	**2012/13**	**2013/14**
Weekly housing rent increase as a result of capital programme	Nil	**Nil**	**Nil**	**Nil**
Council tax band D increase as a result of capital programme	Nil	**Nil**	**Nil**	**Nil**

CRITERIA TWO: PRUDENCE AND PRUDENTIAL INDICATORS FOR PRUDENCE

INDICATOR THREE: ESTIMATES OF CAPITAL EXPENDITURE

The actual capital expenditure for 2009/10 was £202m. The latest projections for 2010/11 include programme approvals and is subject to re-profiling and slippage. Estimates of future expenditure are set out below for approval.

Capital Expenditure	2009/10 Actual £m	2010/11 Latest Proj. £m	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
HRA	97	88	**99**	**92**	**86**
GF	105	151	**109**	**86**	**38**
Total	202	239	**208**	**178**	**124**

INDICATOR FOUR: ACTUAL AND ESTIMATES OF CAPITAL FINANCING REQUIREMENTS.

The capital financing requirement (CFR) reflects the use of borrowing to pay for past capital expenditure or spend in the near future. Projections for 2010/11 include supported capital expenditure approvals issued by the government. Estimates of the CFR are set out below, for approval.

CFR	2009/10 Actual £m	2010/11 Latest Proj. £m	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
HRA	639	651	**651**	**651**	**651**
General Fund	126	130	**126**	**122**	**118**
Total	765	781	**777**	**773**	**769**

The estimates will be affected by new accounting standards which require that funding through private finance initiatives and leases be reflected in the CFR if required. The actual CFR produced as part of work to complete the statement of accounts will pick up these changes.

INDICATOR FIVE: ACTUAL DEBT- THE AUTHORISED AND OPERATIONAL LIMITS

The authorised and operational limits are the limit on debt and long term liabilities outstanding on any one day. The lower limit is the operational boundary and takes account of ordinary activity. The authorised limit is the higher limit to accommodate unexpected borrowing that may be needed for very short periods. The total authorised limit is the limit councils have to determine under the Local Government Act 2003.

The average level of borrowing in any one year is usually close to the capital financing requirement, but it may be higher or lower depending on cash flow needs and timing of borrowing decisions. When rates are expected to rise it may be attractive to borrow ahead of future spending or maturing debt and there may also, in the future, be a benefit from borrowing additional funds prudentially over a short period to restructure debt by replacing high rate loans with lower rate ones. Reliance on short term cash balances to support long term capital funding is likely to be limited given variability of these balances and the attraction of stable long term borrowing.

The operational and authorised limits set out below for approval purely accommodate existing debts, new debts for capital spending and any temporary increases for prudent refinancing that may be carried out. The limit does not include any increase in long term liabilities arising from international accounting changes. Therefore in addition to approving the operational and authorised limit set out below, the council assembly is asked to agree as last year that the limits from 2011/12 onwards be treated as increased for any increase in long term liabilities that arises from accounting changes in leasing and private finance initiatives. The limits will also need revising down once it is clear how much the government intends to reduce HRA's debt by in its reforms to the housing revenue account.

Operational Boundary and Authorised Limits for External debt -	2009/10 Actual Max	2010/11 Latest Proj.	2010/11 Limit £m	**2011/12 Limit £m**	**2012/13 Limit £m**	**2013/14 Limit £m**
Operational Boundary for Debt						
Borrowing	762	762	860	850	850	840
Other long term liabilities	0	0	20	20	20	20
Total Operational (*)	762	762	880	**870**	**870**	**860**
Authorised Limit for Debt -						
Borrowing	762	762	890	890	890	880
Other long term liabilities	0	0	20	20	20	20
Total Authorised (*)	762	762	910	**910**	**910**	**900**

Note * - As last year, the limits from 2011/12 are treated as increased for any increase in long term liabilities arising from accounting changes in leasing and private finance initiatives. Under existing arrangements, the finance director is responsible for all executive, strategic and operational borrowing decisions and has discretion to allow activity to go outside the operational boundary, should it be prudent and justified, but nevertheless remain within the overall authorised limit. The finance director may also vary the mix between long term liabilities and debt should it to be prudent to do so.

CRITERIA THREE: TREASURY MANAGEMENT

INDICATOR SIX: ADOPTION OF THE CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT IN THE PUBLIC SERVICES

This indicator concerns adoption of Treasury Management in the Public Services Code of Practice issued by CIPFA and it is confirms that the latest version of the code published November 2009 was recommended for approval by council assembly at its meeting in February 2010.

INDICATOR SEVEN: INTEREST RATE EXPOSURES – FIXED
INDICATOR EIGHT: INTEREST RATE EXPOSURES - VARIABLE
INDICATOR NINE: MATURITIES

Council debt currently consists entirely of fixed rate loans, with very little falling for repayment over the next few years. However the proportion in fixed rates could change should financing conditions become favourable in the future. The fixed and variable rate limits draw on the authorised debt limit. The maturity limit reflects existing debt structure, with leeway to accommodate refinancing where prudent.

LIMITS ON FIXED AND VARIABLE RATES	2009/10 Maximum Actual £m	2010/11 Latest Projection £m	2010/11 Limit £m	**2011/12** **Limit** **£m**	**2012/13** **Limit** **£m**	**2013/14** **Limit** **£m**
Upper limit for fixed interest rate exposure	762	762	890	**890**	**890**	**880**
Upper limit for variable rate exposure	0	0	225	**225**	**225**	**220**

Maturity structure of fixed rate borrowing	2009/10 Actual	2010/11 Upper Limit	2010/11 Lower Limit	2010/11 Latest Projection	**2011/12 Upper Limit**	**2011/12 Lower Limit**
Under 12 months	0%	30%	0%	0%	**30%**	**0%**
12 months and within 24 months	0%	30%	0%	0%	**30%**	**0%**
24 months and within 5 years	4%	60%	0%	18%	**60%**	**0%**
5 years and within 10 years	26%	80%	0%	12%	**80%**	**0%**
10 years and above in each 10 year period	70%	100%	0%	70%	**100%**	**0%**

INDICATOR TEN: TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS.

The council's cash balances are invested across a number of counterparties which can include the Government, local authorities, and large high rated banks and building societies. Exposure to investments beyond one year raises investment options and helps raise returns. However, as returns can be vulnerable to unexpected market volatility, limits are placed on such exposure. The 2011/12 upper limit on exposure beyond one year recommended for approvals are shown below.

Upper limit on investments greater than 1 yr	2009/10 Actual	2010/11 Latest Position	2010/11 Limit	**2011/12**
Upper limit / Actual	Actual max exposure 20% of investments greater than 1 year Overall maximum average maturity 8 months Longest investment 8 years	16% of investments greater than 1 year Overall maximum average maturity 7 months Longest investment 5 yrs	Up to 50% of investments greater than 1 year Overall average maturity 3 years, but any one investment may be longer as referred to in the Annual Investment Strategy	**Up to 50% of investments greater than 1 year** **Overall average maturity 3 years, but any one investment may be longer as referred to in the Annual Investment Strategy**

APPENDIX C

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2011/12 – RECOMMENDED FOR APPROVAL

ANNUAL MINIMUM REVENUE PROVISION STATEMENT

Under the Guidance on Minimum Revenue Provision SI No. 2008/414 - Issued by the Secretary of State under section 21(1(A)) of the Local Government Act, the council is required to set aside sums as minimum revenue provision (MRP) and to prepare an annual statement on it before the start of the year the provision relates to. The guidance also makes recommendations on prudent levels of MRP.

The council's annual minimum revenue provision statement for 2011/12, drawing on that guidance and recommended for approval by the council assembly is set out below.

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2011/12

1. This statement covers the minimum revenue provision (MRP) that the council shall set set-aside from revenue to reduce borrowing and credit liabilities arising from capital expenditure.

2. In calculating the MRP, the council shall draw on advice and options cited in the guidance issued by the Secretary of State. In accordance with that guidance, no MRP is required in respect of the housing revenue account (HRA). However, the cabinet may apply additional revenue contributions or capital receipts to reduce debt liabilities over and above the minimum where prudent in respect of the HRA or the General Fund.

3. Any changes to this statement require council assembly approval.

Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008.

4. In relation to capital expenditure for which support forms part of the calculation of revenue grant by the Government or any capital expenditure incurred before 1 April 2008, the MRP shall be calculated in accordance with the Local Authorities (Capital Finance and Accounting) Regulations 2003 as if they had not been revoked by the Local Authorities (Capital Finance and Accounting) Regulations. In arriving at that calculation, the capital financing requirement shall be adjusted as described in the guidance.

Self- Financed Capital Expenditure from 1 April 2008.

5. Where the capital expenditure is incurred from 1 April 2008 and on an asset financed wholly or partly by self-funded borrowing, the MRP is to be made in equal annual instalments over the life of the asset in accordance with the formula set out in "Option 3: Asset Life Method" of the guidance.

6. The determination as to which scheme is funded from borrowing and which from other sources shall be assessed by the finance director and where an asset is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply.

7. The asset life method shall also be applied to expenditure from 1 April 2008 which is treated as capital expenditure by virtue of either a direction under section 16(2) of the 2003 Act or regulation 25(1) of the 2003 Regulations.

8. Asset life will be determined in accordance with advice contained in the guidance and when borrowing to construct an asset, the asset life may be treated as commencing in the year the asset first becomes operational and postpone MRP until that year, subject to the approval of the finance director.

9. In the case of finance leases, on balance sheet private finance initiative contracts or other credit arrangements, the MRP shall be the sum that goes to write down the balance sheet liability.

10. Estimated life for MRP purposes shall be determined by the finance director.

11. Where capital expenditure involves loans or repayable grants to third parties no MRP is required as the loan or grant is repayable.

12. Where capital expenditure involves a variety of different types of works and assets, the period over which the overall expenditure is judged to have benefit over shall be considered as the life for MRP purposes. Expenditure arising from or related or incidental to major elements of a capital project may be treated as having the same asset life for MRP purposes as the major element itself.

13. Asset life for MRP purposes shall be determined by the finance director.

14. Subject to the approval of the cabinet, the finance director may request that additional revenue provision, over and above those set out above, or capital receipts be set aside to reduce debt liabilities should it be in the interest of the council.

15. The finance director is responsible for implementing the Annual Minimum Revenue Provision Statement and has managerial, operational and financial discretion necessary to ensure that MRP is calculated in accordance with regulatory and financial requirements and resolve any practical interpretation issues.

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Last Updated:
January 2011

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MUNICIPAL YEAR 2010/11

NOTE: Original held by Constitutional Team; all amendments/queries to Lesley John Tel: 020 7525 7228

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		Roy Fielding, GMB	1
Corporate Management Team	**8**	Euan Cameron, Unison	1
Annie Shepperd	1	Tony O'Brien, UCATT	1
Eleanor Kelly	1	Michael Davern, NUT	1
Deborah Collins	1	James Lewis, NASUWT	1
Gill Davies	1	Pat Reeves, ATL	1
Romi Bowen	1	Miss Sylvia Morris, NAHT	1
Duncan Whitfield	1	Irene Bishop, ASCL	1
Susannah White	1	Mick Young TGWU	1
Gerri Scott	1		
		Local M.P.	**1**
		Simon Hughes M.P.	
		Others	**2**
		Shahida Nasim, Audit Commission, Ground Floor, Tooley Street	1
		Mr. Mark Roelofsen	1
		Total:	**140**