Agenda Item No: **11**

Cabinet recommendations for consideration by Council at the Meeting of the Council on Wednesday, 27 February 2013

Cabinet – 13 February 2013

134 Annual Treasury Management Strategy Statement and Investment Strategy 2013/2014 to 2015/2016

The Cabinet considered Report No 26/13 relating to the proposed Treasury Management Strategy Statement and Investment Strategy for 2013/2014 to 2015/2016, a copy of which was set out at Appendix 1 to the Report.

The Statement set out the background to the Council's treasury management activity in terms of both the wider economy and the Council's current and projected financial position. It also set out the approach which would be taken to borrowing and the investment of cash balances, and explained the risks which were inherent in treasury management and how they would be mitigated.

The Statement specified the Prudential Indicators which the Council was to set in order to meet the requirements of the Prudential Code; contained an 'MRP Statement' which defined the approach that the Council would take to make prudent provision for debt redemption; and established the policy for the separate management of General Fund and Housing Revenue Account borrowing.

The content of the draft Strategy Statement followed the requirements of the Chartered Institute of Public Finance and Accountancy's revised Code of Practice which was published in November 2011, and had been prepared with the support of Arlingclose, the Council's Treasury adviser.

The Audit and Standards Committee had considered a draft of the Strategy Statement at its meeting on 28 January 2013. However, that review had not included the Prudential Indicators, many of which were still subject to calculation pending the finalisation of the draft Capital Programme. That Committee had not wished to draw Cabinet's attention to any specific items within the Strategy Statement.

Recommended:

134.1	That the Treasury Management Strategy Statement and Investment Strategy 2013/2014 to 2015/2016, set out in Appendix 1 to Report No 26/13, be adopted;	DF (to note)
134.2	That the Council's 'Prudential Indicators' for the year be those set out in Appendix C of the Strategy document;	DF (to note)
134.3	That the Council's level of affordable borrowing, determined in accordance with the Local Government Act 2003, be subject to the following limits:	DF (to note)

	2013/2014	2014/2015	2015/2016
Authorised limit for external debt	£72.5m	£72.5m	£72.5m

134.4	That the Council's approach to allocating debt and associated costs between the Housing Revenue Account and General Fund, be as set out in Section 9 of the Strategy Statement; and	DF (to note)
134.5	That the Council's Minimum Revenue Provision be calculated as set out in Section 14 of the Strategy Statement.	DF (to note)

It was further

Resolved:

134.6	That the lending list, as set out in Appendix D of the Strategy Statement, be approved.	DF

Reasons for the Decisions:

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management. In accordance with that Code, the Cabinet approves an Annual Treasury Strategy Statement before the start of each financial year. This includes an Investment Strategy for the year ahead (which Government guidance notes should be adopted by full Council) as well as 'Prudential Indicators' which are required to be set in order to comply with the 'Prudential Code for Capital Finance in Local Authorities' (The Prudential Code). The majority of these indicators are an essential element of an integrated treasury management strategy.

In compliance with the Code of Practice, the Council has agreed a number of Treasury Management Practices one of which requires an updated counterparty list to be submitted to Cabinet for approval each year at the same time as the Strategy Statement is considered.

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 place a duty on local authorities to make a prudent provision for debt redemption. Guidance has been issued by the Secretary of State on determining 'Minimum Revenue Provision'.

† *The Recommendations, and not the Resolution, in the above Minute are for consideration by Council.*

Councillors are requested to bring with them to the meeting Report No 26/13 which was circulated with the agenda papers for the meeting of the Cabinet on 13 February 2013. If you require a further copy of the document please contact Trevor Hayward, Committee Officer, on e-mail trevor.hayward@lewes.gov.uk or telephone 01273 484122

135 General Fund Revenue Budget 2013/2014

The Cabinet considered Report No 27/13 which presented next year's General Fund Revenue Budget, which reflected a council tax freeze, and the medium term budget outlook.

The nation was entering the last two years of the Coalition Government's four year spending review period during which time delivering the Deficit Reduction Plan remained a priority. The savings which were required from local government in those last two years of the review period had been increased in a Government announcement during October 2012 and further increased in the December 2012 National Budget Statement.

The December 2012 Budget Statement also set out that the Government would:

- Repeat the scale of the public sector deficit reduction plan in the next four year spending review period commencing April 2015; and

- Assume that the public sector payroll costs would rise at an average of one per cent each year, following the current pay freeze period which was scheduled to end at 31 March 2013.

The two structural funding changes from April 2013 were:

- The Business Rates Retention Scheme; and

- Localised Council Tax Reduction Schemes,

further details of which were set out in paragraphs 1.5 to 1.7 of the Report.

The Localism Act 2012 had introduced a requirement for referenda to approve or veto council tax increases that exceeded limits set out by the Secretary of State, and approved by Parliament, in "principles" defined for the following financial year. Councils would know the principles before they met to set the Council Tax. The regime enabled councils to avoid calling a referendum if they made a tax rise within the limits.

The Government was making available an extra £450 million to help local government freeze council tax bills in England in 2013/2014. The grant was equivalent to a 1% increase in the 2012/2013 council tax and was payable for the two years 2013/2014 and 2014/2015. However, in previous years, the grant had been equal to a 2.5% increase. The Government had strongly encouraged all authorities to accept the grant and make a real difference to people's living costs.

As the grant was not recurring, the impact of its acceptance and freezing the council tax was to make additional recurring savings equivalent to the value of the grant or introduce a tax rise in future years to match its loss. For planning purposes, the Government had provisionally calculated the value of the Council's grant to be £75,460 which was receivable in 2013/2014 and 2014/2015.

Paragraph 5 of the Report provided details relating to the 2013/2014 General Fund Estimates, a summary of which was set out at Appendix B thereto. The table in paragraph 5.2 provided an analysis of the high level movement between years of the net budget requirement. The 2013/2014 estimate was based upon there being a Council Tax freeze.

Details of contributions to and from reserves were set out at Appendix C to the Report. The overall contribution into reserves for 2013/2014 had increased due to the New Homes Bonus estimated contribution and an estimate of the Local Authority Error Housing Benefit Subsidy grant. Contributions to earmarked reserves were a key component of the annual budget process which were needed to support the sustainability of services.

At its meeting on 17 January 2013, the Scrutiny Committee had reviewed all of the Council's Reserves and had made some observations, further details of which were set out in paragraph 5.2(f) of the Report.

A balanced budget for next year required a savings target of £757,520 and a contribution from the Working Balance of £483,413. Of the savings target, £407,520 had already been achieved by 1 April and had been incorporated in the 2013/2014 estimates. The balance of £350,000 was achievable and required a strong focus to ensure delivery. An amount of £175,000 had been included in the estimates on the assumption that the remaining savings target was delivered, on average, by the middle of the year. The remaining savings for 2013/2014 would be covered by existing initiatives such as Agile Working and the recently approved voluntary severance/early retirement scheme. A more detailed analysis which identified the majority of the individual variances between 2012/2013 and 2013/2014 was set out in the table in paragraph 5.2(i) of the Report.

Paragraph 6 of the Report set out details relating to the Council's deficit reduction programme.

The Medium Term Budget Outlook, together with a detailed commentary thereon, was set out at Appendix D to the Report. It built upon the estimate for 2013/2014 and incorporated the stated assumptions. It modelled a tax freeze for the next three years, with the following two years having an indicative increase less than the rate of the Retail Price Index inflation. The Outlook delivered a sustainable recurring base budget by 31 March 2018, with no call on the Working Balance.

Delivering council tax freezes in each subsequent year beyond 2016/2017 would require further additional annual reductions in the recurring base budget of around £240,000 for each year of a freeze. When determining whether to deliver a freeze beyond 2013/2014, due consideration needed to be given each year to the progress of delivery against in-year savings targets and the unused capacity within the Council's Spending Power.

Paragraph 8 of the Report set out details relating to the interaction of the Revenue and Capital Accounts and the Council's unallocated reserves and balances.

Paragraph 10 of the Report provided information relating to the Usable Reserves Estimate. A statement of the Council's General Fund Revenue Reserves projected through to 31 March 2014 was shown at Appendix E and the estimated position in respect of the Revenue Equalisation and Asset Maintenance Reserve at 31 March 2014 was shown at Appendix F.

Paragraph 10.9 of the Report set out details of the Service Priority and Change Management Reserve which had supported the establishment of Programme Nexus and had provided time limited resources to innovate solutions that would address the deficit reduction programme. Appendix G to the Report set out the position on that Reserve and on its two sub elements.

The Leader of the Council had proposed the establishment of a Strategic Priority Fund to support existing and developing projects that had the potential to develop permanent ongoing income or expenditure reductions for the Council.

The Service Priority and Change Management Reserve would subsequently be renamed the Change Management and Spending Power Reserve which would be the repository for receipts from the new homes bonus funding stream and their use. The purpose of that Reserve would be to fund the costs of change management and to provide spending power for the Strategic Priority Fund and the Council's general needs.

Paragraph 11 of the Report set out details relating to the Collection Fund Balance which was a key component of the Council Tax setting process. A principle of the Medium Term Financial Strategy was to achieve a zero balance, or as close as possible, each year. A review of the likely Collection Fund position at 31 March 2013 including a review of the provision for doubtful debts meant that a surplus of £400,000 could be utilised during the

2013/2014 budget setting process.

The Chief Finance Officer was the Council's principal financial advisor and had statutory responsibilities in relation to the administration of the Council's financial affairs. Paragraph 14 of the Report set out details of his Report thereon.

The Cabinet Member for Finance and Cost Control reported that the Council's overall Earmarked and General Reserves were sufficient to cater for any extraordinary demand upon the Major Planning Applications Reserve which was referred to in Minute 28.16 of the Scrutiny Committee at its meeting held on 17 January 2013.

Resolved:

135.1 That the detailed contributions to reserves and use of reserves, as set out in Appendices C, E, F and G to Report No 27/13, be received and noted;

135.2 That the recommendations of the Scrutiny Committee in relation to its review of the Council's reserves and the proposal to establish a Strategic Priority Fund, be received and noted;

135.3 That the Collection Fund balance to be returned to taxpayers in 2013/2014, be noted;

135.4 That the implications of the economic conditions and impact upon the Council's Medium Term Budget Outlook, be noted; and

135.5 That the statutory report of the Director of Finance, as required by section 25(1) of the Local Government Act 2003, set out in sections 8 to 12 and 14 of the Report, be received and noted.

It was further

Recommended:

135.6	That the Council Tax Freeze and associated budget for 2013/2014, as set out in Appendix B to the Report, together with the level of the Council's Reserves and Balances, be approved;	DF (to note)
135.7	That a Strategic Priority Fund, the purpose of which is to support existing and developing projects that have the potential to develop permanent ongoing income or expenditure reductions for the Council, be established;	DF (to note)
135.8	That the balances in the Concessionary Fares Reserve, the Housing Development Reserve, the Resident's Priority Survey Reserve and the Local Authority Business Growth Incentive Reserve, which amounted to £288,000, together with £212,000 of New Homes Bonus funds, be transferred to the new Strategic Priority Fund, following which those reserves (namely, the	DF (to note)

	Concessionary Fares Reserve, the Housing Development Reserve, the Resident's Priority Survey Reserve and the Local Authority Business Growth Incentive Reserve) be closed;	
135.9	That the Service Priority and Change Management Reserve be renamed the Change Management and Spending Power Reserve, which will be the repository for receipts from the New Homes Bonus funding stream. The purpose of this Reserve will be to fund the costs of change management and to provide spending power for the Strategic Priority Fund and the Council's general needs;	DF (to note)
135.10	That £25K of the money in the Housing Benefit Standards and Improvement Reserve, as detailed in Appendix E to the Report, be used to pay for the Business Rates Retention software required; and	DF (to note)
135.11	That Lewes Town Council be asked to confirm in writing that a project will be identified and commenced before 31 March 2014 that will use the earmarked sum for the Pells area (The Town Brook Charity), which is held in the Revenue Equalisation and Asset Maintenance reserve.	DF (to note)

Reasons for the Decisions:

Cabinet is required to approve the estimates in accordance with the Council's Constitution. Report No 27/13 sets out the level of General Fund revenue resources needed to support the Council's priorities and services.

The Council has a statutory duty to determine its level of budget requirement and Council Tax for the coming year. Cabinet makes a recommendation to Council on this matter having taken account of the Director's statutory report on the adequacy of reserves and balances.

† *The Recommendations, and not the Resolutions, in the above Minute are for consideration by Council.*

Councillors are requested to bring with them to the meeting Report No 27/13 which was circulated with the agenda papers for the meeting of the Cabinet on 13 February 2013. If you require a further copy of the document please contact Trevor Hayward, Committee Officer, on e-mail trevor.hayward@lewes.gov.uk or telephone 01273 484122

136 Housing Revenue Account Estimates 2013/2014

The Cabinet considered Report No 28/13 which set out the latest financial position on the Housing Revenue Account and presented the estimates for 2013/14.

2013/14 was the second year of operation under the national Housing Revenue Account self-financing system. The former Housing Subsidy system was no longer in operation. All income generated was kept locally and available to fund the maintenance and management of the housing stock, service debt and acquire and provide additional Social Housing.

The estimates had been prepared on the basis of the national Housing Revenue Account Accounting Code of Practice and incorporated Rent Restructuring, Supporting People and Service Charges.

The Housing Revenue Account estimates 2013/14 were in line with the Business Plan and current Council policy on rent restructuring. They included a contribution to finance the capital programme in the sum of £1,183,220 and showed a balance in hand for the year of £1,961,390. The increase in average dwelling rents amounted to 4.24%.

No provision had been made for cost of living pay movements at individual employee or service level. However, a provision of 1% for movement in payroll costs had been included in the budget summary, which included provision for annual contractual salary increments.

Inflation had been provided to cover known price changes, such as utility and contractual commitments and the items highlighted in paragraphs 3.5 to 3.7 of the Report had been provided in the budget.

The planned and responsive maintenance estimates allowed for increases of £62,000 (5%) and £18,050 (1.1%) respectively.

In return for reduced insurance premiums, the Council had accepted responsibility for some public liability risks and higher excesses. A provision in the sum of £50,000 was included in the estimates for known and potential claims. Additionally, a further provision of £12,000 was included for minor claims, which were not handled by the Council's insurer.

£270,000 was included in the revenue estimates for capital projects that were not traditionally funded from borrowing or the Major Repairs Reserve.

The budget layout complied with national accounting requirements and included explanatory notes within the body of the estimates. An explanation of items included within the expenditure headings was set out in paragraph 4.1 of the Report.

The introduction of the self-financing model for the Housing Revenue Account had replaced the previous Housing Subsidy System. Details of the final self-financing settlement had been previously reported to Cabinet. Self-financing was based on authorities 'buying' themselves out of negative housing subsidy positions. On 28 March 2012, the Council had paid the Government the sum of £56,673,000 to fund the transition by a combination of taking on external loans and internal borrowing.

Further information relating to the budgets was set out in the Report and in the Appendices thereto.

An integral part of the budget process was constructive dialogue with The Tenants of Lewes District Group (TOLD). During the current year, the Council had been in ongoing discussions with TOLD regarding the Revenue Budget and Capital Programme. The Lead Councillor and Officers had met with TOLD on 28 January 2013 to discuss a draft of Report No 28/13.

Resolved:

136.1 That the comments of the Scrutiny Committee at its meeting held on 17 January 2013 in respect of the Housing Revenue Account Estimates, rent setting and service charges, be noted.

It was further

Recommended:

136.2	That the Housing Revenue Account Estimates for 2013/14, as set out in Appendices 1 to 6 of Report No 28/13, be approved;	DF (to note)
136.3	That an average dwelling rent increase of 4.24% be approved and be effective from 1 April 2013 which is in line with the Business Plan and current Council policy on rent restructuring, as detailed in paragraph 10 of the Report;	DF (to note)
136.4	That the proposed progression to year three of the transition to full market rents for garages be approved and be effective from 1 April 2013, as detailed in paragraph 12 of the Report, which is in line with the Business Plan and current Council policy on garage rentals;	DF (to note)
136.5	That an increase of 2.6% in Private Sector Leased Property rents be approved and be effective from 1 April 2013, as detailed in paragraph 13 of the Report; and	DF (to note)
136.6	That the implementation of revised Service Charges, as detailed in paragraphs 14 to 19 of the Report, be approved and be effective from 1 April 2013.	DF (to note)

Reason for the Decisions:

To enable the Council to fulfil its legal obligations to produce a balanced Housing Revenue Account for 2013/14.

† *The Recommendations, and not the Resolution, in the above Minute are for consideration by Council.*

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137 The Capital Programme 2012/2013 to 2015/2016

The Cabinet considered Report No 29/13 relating to the revised 2012/2013 Capital Programme, the 2013/2014 Capital Programme, the outline Capital Programme 2014/2015 to 2015/2016 and the associated Prudential Indicators.

As part of the annual budget cycle, Cabinet considered what level of capital support to allocate to its Policy Programme. It also considered the medium term position in relation to likely capital needs and available resources.

The capital planning process took account of the Council's Capital Strategy and Asset Management Plan as those key documents had a direct influence on the allocation of resources. The Council's Constitution required Cabinet to make a recommendation to Council on the level of the Capital Programme budget.

Part 1 of the Local Government Act 2003 had introduced a new system for local authority capital expenditure and financing, the 'Prudential Capital Finance System', further details of which were set out in paragraph 3 of the Report. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, which defined that System, required local authorities to follow the 'Prudential Code for Capital Finance in Local Authorities' (the Prudential Code) when taking their decisions. That Code required authorities to set a number of 'Prudential Indicators' before the beginning of each financial year, further details of which were set out in paragraph 7 of the Report.

The Revised 2012/2013 Capital Programme was set out at Appendix 1 to the Report that showed a total value of £16.121m which included the total capital cost of implementing the Food Waste Collection scheme that was to be funded wholly from Government grant, although some of the expenditure was scheduled to fall in 2013/2014. A similar approach had been taken to other projects which spanned financial years including Agile Working.

Details relating to a projection of the resources which would be available to fund capital expenditure at 1 April 2013 were set out in paragraph 5 of the Report.

The Prudential Code required local authorities to plan their capital expenditure programme for at least three years ahead which corresponded with the time scale covered by the Council's Capital Strategy.

The recommended Capital Programme for 2013/2014 to 2015/2016 was set out at Appendix 2 for approval. However, it was important to note that the items shown for 2014/2015 and 2015/2016 were provisional, the reasons for which were set out in paragraph 6.1 of the Report.

Recommended:

137.1 That the revised 2012/2013 Capital Programme in the sum of £16,120,990, as set out at Appendix 1 to Report No 29/13, be approved; DF (to note)

137.2 That the 2013/2014 Capital Programme in the sum of £6,151,600, as set out at Appendix 2 to the Report, be approved; DF (to note)

137.3 That the outline Capital Programme 2014/2015 to 2015/2016 in the sum of £13,569,120, as set out at Appendix 2 to the Report, be approved; and DF (to note)

137.4 That the Prudential Indicators in respect of the Capital Programme, as detailed in paragraph 7 of the Report, be approved and adopted for 2013/2014. DF (to note)

Reasons for the Decisions:

As part of the annual budget cycle the Cabinet considers what level of capital support to allocate to its Policy Programme. It also considers the medium term position in relation to likely capital needs and available resources. The capital planning process takes account of the Council's Capital Strategy and Asset Management Plan as these key documents have a direct influence on the allocation of resources. The Council's Constitution requires Cabinet to make a recommendation to Council on the level of the Capital Programme budget.

Part 1 of the Local Government Act 2003 introduced a new system for local authority capital expenditure and financing, the 'Prudential Capital Finance System'. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, which define this system, requires local authorities to follow the 'Prudential Code for Capital Finance in Local Authorities' (the Prudential Code) when taking their decisions. The Prudential Code requires authorities to set a number of 'Prudential Indicators' before the beginning of each financial year.

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