ANNEX A

TREASURY MANAGEMENT STRATEGY STATEMENT, MRP STRATEGY AND ANNUAL INVESTMENT STRATEGY 2012/13

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, meaning that total revenue due during the financial year must be sufficient to meet expenditure, and also that actual cash inflows must be adequate to cover cash outflows. A key part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk approach, ensuring adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

A particular point is that a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that:

- increases in revenue costs resulting from increases in interest charges, incurred to finance additional borrowing to finance capital expenditure, and
- any increases in running costs from new capital projects,

must be limited to a level which is affordable within the Council's projected income.

The formal definition of treasury management is:

'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

Prudential and Treasury Indicators and Treasury Strategy - The first and most important report covers:

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;
- an investment strategy (the parameters on how investments are to be managed); and
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time).

Reporting is also required on the capital plans (including the associated prudential indicators), (see 1.4 below).

A Mid Year Treasury Management Report - This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting its objectives or whether any policies require revision. Rather than this minimum requirement, these reports will be produced quarterly.

An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2012/13

The suggested strategy for 2012/13 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Sector Treasury Services.

The strategy for 2012/13 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the MRP strategy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the WG MRP Guidance, the CIPFA Treasury Management Code and the WG Investment Guidance.

1.4 Planned Capital Programme

The Council's current capital expenditure plans are set out below. In respect of the years after 2012/13, the amounts shown are limited to existing commitments associated with ongoing schemes. The expectation is that the actual programmes for these years will be larger than this and more detailed projections will be compiled. The key points to note are that:

- the overall programmes will be limited to what is affordable, both in terms of actual capital spend and in terms of the revenue implications (see 1.1 above);
- the programmes for future years will be significantly reduced, compared to current levels, because the HRA Welsh Housing Quality Standard Programme will be complete in 2012.

£m	**2010/11** Actual £m	2011/12 Projected £m	**2012/13** Estimate £m	**2013/14** Estimate £m	**2014/15** Estimate £m
TOTAL	24.1	24.6	27.8	20.1	16.2

2. Treasury Management Strategy

2.1 Current Portfolio Position

The Council's treasury portfolio position at 29 February 2012 comprised:-

		Principal	Average Rate
Fixed Rate Funding	PWLB	£96.1m	5.48%
Variable Rate Funding	PWLB	£ 0.0m	n/a
Total Debt		£96.1m	5.48%
Total Investments		**£23.5m**	**1.14%**

PWLB: Public Works Loans Board

A more detailed breakdown of external debt is shown at Appendix 1.

2.2. Treasury Indicators: Limits to Borrowing Activity

It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". The Prudential Code refers to this as the Authorised Limit.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit can be found in Appendix 4 to this report.

2.3 Borrowing Requirement

The Council's forecast marginal borrowing requirement (i.e. additional to the existing portfolio) is:

ESTIMATED BORROWING REQUIREMENT 2011-12 TO 2014-15				
	2011-12 Projected £'000	**2012-13 Estimate** £'000	**2013-14 Estimate** £'000	**2014-15 Estimate** £'000
New Borrowing to Support Capital Expenditure				
Supported Borrowing	4,953	6,168	4,236	3,236
Unsupported Borrowing	5,029	8,131	2,196	2,202
	9,982	**14,299**	**6,432**	**5,438**
Replacement Borrowing	6,501	6	6,507	7
	16,483	**14,305**	**12,939**	**5,445**

This incorporates the full impact of the draft Capital Programme for 2012-13. For the following financial years, the amounts of new borrowing are limited to the notified allocations for Supported Borrowing, plus an annual amount of £1m of additional Unsupported Borrowing, plus cover for delayed capital receipts and the effect of the Local Government Borrowing Initiative.

The totals shown in the table represent the projected maximum of additional borrowing. The likelihood is that not all of this requirement will be met by external borrowing (see 5.1 below).

3. Prudential and Treasury Indicators for 2012/13 – 2014/15

Prudential and Treasury Indicators (as set out in in Appendix 4 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original 2001 Code was adopted on 5 March 2002 by the full Council and the revised Code was adopted on 4 March 2010.

4. Prospects for Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average	Bank Rate %	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
September 2012	0.50	0.70	1.50	2.30	4.30	4.40
December 2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
September 2013	0.75	0.90	1.90	2.70	4.60	4.70
December 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

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

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

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

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

A detailed review of the current economic background is contained within Appendix 5 to this report.

5. Borrowing Strategy

The Council is currently in an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is high, and will continue to be followed where appropriate (see 5.1 below for a more detailed consideration of internal and external borrowing).

Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

In view of the above, the Council's borrowing strategy will be based upon the following sources providing value:

- Temporary borrowing from the money markets or other local authorities;
- PWLB variable rate loans for up to 10 years;
- Short dated borrowing from non PWLB sources;
- There will be a flexible approach to the mix of internal and external borrowing (see 5.1 below);
- Long term fixed rate market loans, where rates are significantly below PWLB rates for the equivalent maturity period, and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

The S151 Officer will also keep under review potential opportunities to join in bond issues or other collaborative borrowing arrangements.

5.1 External v. internal borrowing

The comparison of gross and net debt positions as at year end is as follows:

NET BORROWING 2010-11 TO 2014-15					
	2010-11 Actual £'000	**2011-12 Projected** £'000	**2012-13 Estimate** £'000	**2013-14 Estimate** £'000	**2014-15 Estimate** £'000
Total Borrowing	102,608	96,102	113,717	115,189	115,463
Total Investments	32,483	22,983	25,932	29,582	33,432
Net Borrowing	**70,125**	**73,119**	**87,785**	**85,607**	**82,031**

Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. Many of the factors which lay behind the previous policy to externalise all borrowing remain valid, e.g.:

- To protect the council tax payer from losses caused by the method of calculation of Housing Revenue Account Subsidy in the current system;
- To mitigate any liquidity issues caused by the implementation in the future of the long stop provisions to limit unsupported borrowing;
- With a continuing historically abnormally low Bank Rate, there remains an unique opportunity for local authorities to actively manage their strategy of undertaking new external borrowing.

However, it remains the case that there are certain limitations to this approach, as previously noted, e.g.:

- The policy can cause exposure to credit risk (see paragraph 9), so this aspect must be very carefully managed;
- Careful ongoing consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

In favour of internalisation, over the next three years investment rates are expected to be below long term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

However, short term savings by avoiding new long term external borrowing in 2012/13 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

Potential changes to Housing Subsidy will have a bearing on the balance of the internalisation/externalisation, but further information on this is awaited from WG.

The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, compounded by a considerable further widening of the difference between new borrowing and repayment rates in October 2010, has potentially meant that large premiums would be incurred by such action; such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Against this background, caution will be adopted with the 2012/13 treasury operations. The S151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

5.2 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs, solely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the advantages and disadvantages of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

6. Debt Rescheduling

The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded on 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (i.e. premiums incurred).

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit Committee, at the earliest practicable meeting following its action.

7. Annual Investment Strategy

7.1 Investment Policy

The Council's investment policy has regard to the WG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice for Local Authorities. The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings, service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the Council's advisors, Sector, in producing its colour coding's which show the varying degrees of creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in Appendix 6 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

7.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads from which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will, therefore, normally use counterparties within the following durational bands:-

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used without specific approval by S151 Officer

The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of BB+, and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

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

Reference will also be made to market data and market information, information on government support for banks and the credit ratings of that government support.

7.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

7.4 Investment Strategy

In-house funds*:* Based on cash flow forecasts, the S151 Officer anticipates that the available cash balances in 2012/13 will be up to £40m on average and will range between £25m and £45m. This estimate is based on available cash balances of £40m on average this year to date (with a range of £23m to £46m). There is a core balance of up to £15m available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

As at the beginning of February, the Council held no investments with a maturity of more than one year.

Investment returns expectations : Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are: -

- **2011/ 2012** 0.50%
- **2012/ 2013** 0.50%
- **2013/ 2014** 1.25%
- **2014/ 2015** 2.50%

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

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile. Sector's current advice is to keep investments short (3 months).

The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.70%
2013/14	1.00%
2014/15	1.60%
2015/16	3.30%
2016/17	4.10%

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 15 day accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

7.5 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

7.6 External fund managers

The Council has not appointed external fund managers. The need for this will be kept under review and a report will be made to the Executive before such an appointment is made.

7.7 Policy on the use of external service providers

In order to acquire access to specialist skills and resources, the Council uses Sector Treasury Services as its external treasury management advisors. The terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Final responsibility for treasury management decisions remains with the Council.

7.8 Delegation

The Treasury Management scheme of delegation and the role of the Section 151 Officer are outlined in Appendix 8.

APPENDICES

1. Loan maturity profile
2. MRP strategy
3. Interest rate forecasts
4. Prudential and Treasury indicators
5. Economic background
6. Specified and non specified investments / Approved Lending List
7. Approved countries for investments
8. Treasury management scheme of delegation and the role of the section 151 officer.

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DADANSODDIAD BENTHYCIADAU YN AEDDFEDU 2011/12 YMLAEN/ LOANS MATURITY ANALYSIS 2011/12 ONWARDS						
	PWLB Aeddefedu/ PWLB Maturity £'000	**PWLB EIP/ Annuity/ PWLB EIP/ Annuity £'000**	**Benthyciadau Marchnad/ Market Loans £'000**	**PWLB Amrywiol/ PWLB Variable £'000**	**Cyfanswm yn Aeddfedu/ Total Maturing £'000**	**%YN Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %**
2011/12	0	1	0	0	1	0.0
2012/13	0	6	0	0	6	0.0
2013/14	6,500	7	0	0	6,507	6.8
2014/15	0	7	0	0	7	0.0
2015/16	0	8	0	0	8	0.0
2016/17	0	9	0	0	9	0.0
2017/18	5,500	9	0	0	5,509	5.7
2018/19	5,000	10	0	0	5,010	5.2
2019/20	5,000	11	0	0	5,011	5.2
2020/21	4,500	12	0	0	4,512	4.7
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	2.4
2023/24	1,854	16	0	0	1,870	1.9
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	854	22	0	0	876	0.9
2027/28	1,675	24	0	0	1,698	1.8
2028/29	0	26	0	0	26	0.0
2029/30	854	21	0	0	875	0.9
2030/31	0	15	0	0	15	0.0
2031/32	1,281	9	0	0	1,290	1.3
2032/33	0	8	0	0	8	0.0
2033/34	0	0	0	0	0	0.0
2034/35	0	0	0	0	0	0.0
2035/36	0	0	0	0	0	0.0
2037/38	0	0	0	0	0	0.0
2039/40	5, 000	0	0	0	5,000	5.2
2040/41	3,500	0	0	0	3,500	3.6
2045/46	0	0	0	0	0	0.0
2047/48	0	0	0	0	0	0.0
2050/51	2,000	0	0	0	2,000	2.1
2052/53	28,238	0	0	0	28,238	29.4
2054/55	3,000	0	0	0	3,000	3.1
2055/56	3,500	0	0	0	3,500	3.6
2056/57	5,000	0	0	0	5,000	5.2
2057/58	8,513	0	0	0	8,513	8.9
2059/60	1,763	0	0	0	1,763	1.8
	95,816	**288**	**0**	**0**	**96,103**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life(years)	29.43	13.01	0.00	0.00	29.38	
Cyfartaledd graddfa (%)/ Average rate (%)	5.43	5.53	0.00	0.00	5.48	

APPENDIX 2

Minimum Revenue Provision Policy Statement 2012/13

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09*,* and will assess the MRP for 2012/13 having regard to the main recommendations contained within the guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003. This relates to Council Fund only not to HRA.

The major proportion of the MRP for 2012/13 will relate to the more historic debt liability that will continue to be charged at the rate of 4% of Capital Financing Requirement (in accordance with *option 2* of the guidance). Certain expenditure, generally that funded from unsupported borrowing, reflected within the debt liability at 31st March 2007 will be subject to MRP (under *option 3),* in accordance with the asset life method as below.

Although the regulations give discretion to charge MRP on new expenditure either at 4% as previously, or according to estimated asset life, MRP will normally be charged at 4%. However, expenditure financed by unsupported borrowing will be charged in accordance with the asset life method. This distinction will be kept under review.

Under the Asset Life method, MRP is charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined by the S151 Officer. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

The S151 Officer will determine the appropriate and prudent use of the paragraph 13 exception to defer charging MRP until the year following the one in which the asset became operational.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Housing Revenue Account share of the Capital Financing Requirement is generally subject to a 2% MRP charge; however unsupported borrowing will be charged to HRA revenue over a shorter period according to the approved 30 year business plan.

APPENDIX 3

Sector's Interest Rate View															
	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 Month LIBID	**0.87%**	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 Month LIBID	**1.16%**	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 Month LIBID	**1.65%**	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
5yr PWLB Rate	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
Bank Rate															
Sector's View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	**2.25%**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	**2.25%**	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	**3.33%**	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	**3.33%**	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	**4.24%**	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.24%**	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	**4.26%**	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.26%**	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

APPENDIX 4

Prudential and Treasury Indicators
(see separate document to County Council)

APPENDIX 5

Economic Background

5.1. Global economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers solid optimistim for the outlook for 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either “orderly” or “disorderly”. Most commentators currently view that it is now inevitable that Greece will have to exit the Eurozone in 2012.

There is also growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and likely difficulties in implementing the required level of fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

The US economy has encouraged with some positive news around the start of 2012 but any improvement in the weak rate of growth is likely to only generate slow progress in reducing the high level of unemployment which is acting as such a dampener on the economy. With Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started “Operation Twist” in an effort to re-ignite the rate of growth in the economy. However, high levels of consumer indebtedness, a moribund housing market together with stubbornly high unemployment, will continue to weigh heavily on consumer confidence and so on the abiltity to generate a healthy and consistent rate of economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite a major thrust to tighten monetary policy during 2011 to cool inflationary pressures which are now subsiding. However, some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

5.2 UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has been weak and concerns at the risk of a technical recession (two quarters of negative growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forcecasts for 2012 and beyond have been revised lower on a near quarterly basis. With concerns of a potential return to recession, the Bank of England embarked on a second round of Quantitive Easing to stimulate economic activity. It appears very likely that there will be another expansion of quantitative easing in quarter 1 2012 in order to stimulate economic growth.

Unemployment. With the impact of the Government's austerity strategy resulting in steadily increasing unemployment during 2011, there are limited prospects for any improvement in 2012 given the prospects for weak growth.

Inflation and Bank Rate. For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation starting quarter 1 of 2012 at 4.8%, having peaked at 5.2% in September 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

AAA rating. The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy for deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and, with the safe haven status from Eurozone debt also drawing in external investment, the pressure on rates has been down, and looks set to remain so for some time.

5.3 Sector's forward view

Economic forecasting remains troublesome with so many extermal influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;

- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

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

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Buddsoddiadau Penodedig ac Amhenodedig/Rhestr Benthyca Cymeradwyedig/ Specified and Non-Specified Investments/Approved Lending List

Rheolau/Criteria

BUDDSODDIADAU PENODEDIG Adneuon y Trysorlys Adneuon gydag awdurdodau lleol y DU hyd at 364 diwrnod. Adneuon gyda banciau a chymdeithasau adeiladu sydd wedi derbyn cyfradd credyd uchel, am gyfnodau o hyd at 364 diwrnod (gweler 4.1).	**SPECIFIED INVESTMENTS** Treasury Deposits Deposits with UK local authorities for up to 364 days. Deposits with banks and building societies which have been awarded a high credit rating, for up to 364 days (see 4.1).
BUDDSODDIADAU AMHENODEDIG *Mwyafswm ar unrhyw bryd £30m*. **Grŵp 1** *(wedi eu cymeradwyo)* Adneuon gyda banciau am gyfnodau o hyd at 5 mlynedd (gweler 4.2). Mwyafswm ar unrhyw bryd £15m. Adneuon gyda banciau a chymdeithasau adeiladu nad ydynt wedi derbyn cyfradd credyd uchel, am gyfnodau o hyd at 364 diwrnod (gweler 4.2). Mwyafswm ar unrhyw bryd £5m. Banciau'r DU sydd wedi eu gwladoli Banciau a ddaw dan Becyn Cefnogi System Bancio'r DU Giltiau Biliau'r Trysorlys Cronfeydd Marchnad Arian a raddiwyd AAA Gwarant Ddiamwys y Llywodraeth ar faterion dyled penodol (e.e. tystysgrifau adneuon, bondiau, a.y.b.) gan fanciau sy'n cael diogelwch dan y pecyn cefnogi system bancio. **Grŵp 2** *(angen cymeradwyaeth y Pwyllgor Gwaith)* Dyroddiadau Euro-Sterling gan rai cyrff rhyngwladol a restrir ar Gyfnewidfeydd Stoc gwledydd cymwys yr AEE. Mwyafswm ar unrhyw bryd £10m. **Grŵp 3** *(angen cymeradwyaeth y Cyngor)* Pob math arall o fuddsoddiad i bwrpas Rheoli'r Trysorlys.	**NON-SPECIFIED INVESTMENTS** *Overall limit at any time £30m.* **Group 1** *(approved for use)* Deposits with banks for up to 5 years (see 4.2). Overall limit at any time £15m. Deposits with banks and building societies which have not been awarded a high credit rating, for up to 364 days (see 4.2). Overall limit at any time £5m. Nationalised Banks in the UK Banks covered by UK Banking System Support Package Gilts Treasury Bills Triple A Rated Money Market Funds UK Government Explicit Guarantee on specific debt issues (e.g. certificates of deposits, bonds, etc.) by banks covered by the banking system support package. **Group 2** *(requires Executive approval)* Euro-Sterling issues by certain Supranational bodies listed on the Stock Exchanges of qualifying EAA states. Overall limit at any time £10m. **Group 3** *(requires the Council's approval)* All other types of investment for Treasury Management purposes.
Dim ond gwrthbartïon a gymeradwywyd o wledydd sydd â chyfradd credyd isaf o AA- trwy Fitch Ratings (neu gyfatebol trwy asiantaethau eraill os nad yw Fitch yn eu darparu) fydd y Cyngor yn eu defnyddio. Bydd y Cyngor hefyd yn gwneud benthyciadau i bwrpas cyflwyno ei wasanaethau lle mae cyllideb benodol wedi ei gytuno i'r pwrpas e.e. tai fforddiadwy.	The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The Council will also make loans for the purposes of the delivery of its services where there is an approved budget for that specific purpose e.g. affordable housing.

CYNGOR SIR YNYS MÔN – ISLE OF ANGLESEY COUNTY COUNCIL CYRFF Y GELLIR RHOI ARIAN AR FENTHYG IDDYNT YN ÔL Y GYFRADD CREDYD - ADNEUON Rheolau diwygiedig - Mawrth 2012 APPROVED LENDING LIST BY CREDIT RATING – DEPOSITS Revised Criteria – March 2012		
4.1 **Si) aiii**	**BUDDSODDIADAU PENODEDIG/SPECIFIED INVESTMENTS*** Cymdeithasau Adeiladu; Banciau'r DU a thramor- £10m am 12 mis (364 diwrnod) NEU Banciau'r DU sydd wedi eu gwladoli/eu gwladoli'n rhannol Building Societies;UK & Foreign Banks - £10m for 12 months (364 days) OR Nationalised/Semi Nationalised UK Banks	**Rheolau/Criteria** AA- & A1 + /P1/F1+
Si) b	Cymdeithasau Adeiladu; Banciau'r DU a thramor - £7.5m am 6 mis Building Societies; UK & Foreign Banks - £7.5m for 6 months	A & A1 + /P1/F1
Si) c	Cymdeithasau Adeiladu; Banciau'r DU a thramor - £5m am 3 mis Building Societies; UK & Foreign Banks - £5m for 3 months	A & A1 + /P1/F1
Si)d	Banciau'r DU a thramor - £10m am 1 mis UK & Foreign Banks - £10m for 1 month	A & A1 + /P1/F1
Sv)	Trysorlys y DU – dim mwyafswm UK Treasury – no maximum	
Svi)	Awdurdodau Lleol y DU - £5m am 12 mis UK Local Authorities - £5m for 12 months	Pob un /All : CC neu PGC/DF or HoS
4.2 **Ni) ai**	**BUDDSODDIADAU AMHENODEDIG/NON-SPECIFIED INVESTMENTS*** Banciau'r DU a thramor - £10m am 5 mlynedd UK & Foreign Banks - £10m for 5 years	AA & A1 + /P1/F1 + Cefnogaeth/Support ½ CC neu PGC/DF or HoS
Ni) ai	Banciau'r DU a thramor - £10m am 3 blynedd UK & Foreign Banks - £10m for 3 years	AA & A1 + /P1/F1 + Cefnogaeth/Support ½ CC neu PGC/DF or HoS
N ii)	Is-gwmnïau Prif Fanciau'r DU - £1m am 1 mis Subsidiaries Major UK Banks - £1m for 1 month	Pob un /All : CC neu PGC/DF or HoS
N iii)	Banciau Clirio Eraill y DU - £1m am 1 mis Other UK Clearing Banks - £1m for 1 month	Pob un /All : CC neu PGC/DF or HoS
N iv) c	Cymdeithasau Adeiladu'r DU - £2m am 2 fis UK Building Societies - £2m for 2 months	Graddfa unigol/ Cefnogaeth dda Good individual/ Support Ratings
N iv) ch	Cymdeithasau Adeiladu'r DU - £1m am 1 mis UK Building Societies - £1m for 1 months	Pob un /All : CC neu PGC/DF or HoS
	* Yn amodol ar uchafswm fesul gwrth barti a fesul grŵp. * Subject to limits by counterparty and by group. * Yn amodol hefyd ar raddfa credyd y wlad y mae'r banc yn perthyn iddo. * Subject also to the sovereign credit rating of the country the bank is from.	

APPENDIX 7

Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

AA+

- France
- Hong Kong
- U.S.A.

AA

- Belgium
- UAE

AA-

- Japan
- Qatar
- Saudi Arabia

APPENDIX 8

Treasury management scheme of delegation

(i) County Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) County Council or Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations

The treasury management role of the section 151 officer

The S151 (responsible) officer

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

Capital Issues

- the capital plans and the prudential indicators;
- the MRP strategy.

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE :	**COUNTY COUNCIL**
DATE :	**6 MARCH 2012**
TITLE OF REPORT :	**BUDGET 2012-13**
PURPOSE OF REPORT :	**TO DEAL WITH STATUTORY MATTERS**
REPORT BY :	**INTERIM SECTION 151 OFFICER**
ACTION :	**ADOPT RESOLUTION**

1. INTRODUCTION

The Commissioners have formulated their proposals to the Council in respect of the 2012-13 budget and the medium term strategy. These are outlined in a separate report in the name of the Commissioners.

In order to adopt its budget for the year 2012-13 and to determine the level of Council Tax for the year, the County Council is required to adopt a formal resolution which deals in some detail with all connected matters.

This report is my formal advice to the Council as a whole concerning the budget. It deals with statutory matters and other matters required to complete the advice on the budget. The draft budget resolution is intended to give effect to the Commissioners' proposals and take account of this advice.

This report is based on the Commissioners' final budget proposals on the assumption that these will be carried by the Council. If there is any amendment to these proposals I may need to reconsider this report. To assist me to do so, the Budget Procedure Rules in the Council Constitution 4.3.2.2.6 provide that three working days' notice of an amendment should be given.

2. ROBUSTNESS OF ESTIMATES

I am required under section 25 (1) (a) of the Local Government Act 2003 to report to the Council on the robustness of estimates made in the course of drawing up the budget. In this year's more challenging situation facing local authorities, CIPFA's Chief Executive has this year again reminded Chief Finance Officers of their duties in this respect. This assessment summarises my report to the Executive, in which I referred to the following risks potentially affecting the robustness of estimates:

Inflation risk;
Interest rate risk;
Grants risk;
Income risk;
Optimism risk;
Over-caution risk;
Salary and Grading risk.

I concluded that optimism risk was the greatest. This is mostly the risk of being too optimistic with respect to the delivery of the savings programme.

I also drew attention to the risk that, having not completed its salary and grading review, and already having a number of equal pay claims lodged at the Employment Tribunal, the Council may be required to pay compensation claims to staff because of alleged unfairness of its pay arrangements. The revised proposals considered by the Pay and Grading Panel in January 2012 are expected to reduce staff costs but may risk more claims, although the risks to the Authority in all scenarios have been carefully evaluated by the Panel. In February 2012 these scenarios were updated and it was recommended that Job Evaluation and Equal Pay considerations were dealt with together. This is a long-standing risk which will not go away, and challenges the robustness of the budget as in previous years. In mitigation there remains an annual contingency budget of £0.9 million towards the cost of the new pay structure and an accumulated reserve which by March 2012 is projected at about £2m. However, as time goes on the potential risk increases which coupled with a very challenging economic situation means that there will be other competing calls on the budget in future years. It is therefore unlikely that this funding will be increased significantly and could potentially be insufficient to deliver Job Evaluation in totality as quickly as we may wish.

Looking to the medium term, there is a risk to the Authority from national economic conditions. Inflation affecting pay and prices may affect what can be afforded within the indicative funding totals announced by WG. Further decline in the economy may threaten those spending totals. There is also a risk that adverse demographic changes, or lower than average increases compared to the rest of Wales, will reduce this Authority's share of the national total. In a situation where the budget gap has not yet been bridged for 2013-14 and 2014-15, the prospect of deterioration means a need to over-plan and over-achieve savings.

The revenue budget in Table B includes an unallocated sum which is a net figure of positive budgets offset by projected savings not yet allocated to specific budgets. There are known demands against this unallocated sum, but not yet quantifiable enough to set aside a specific budget. There is uncertainty here, but the fact that the net figure is a positive amount is some mitigation. That mitigation has been reduced by the Commissioners' decision to reduce its proposed Council Tax increase.

3. ADEQUACY OF RESERVES

Under section 25(1)(b) of the Local Government Act 2003, I am required to report to the Council on the adequacy of financial reserves. Formally this relates to the reserves at the start and at the end of the financial year of the budget. Again, CIPFA's Chief Executive has reminded of this requirement, and drawn attention to professional guidelines in Bulletin 77 of the Local Authority Accounting Panel.

Earmarked reserves have been established to deal with known commitments, plans or risks. In assessing the level of reserves I have assumed that commitments will be honoured, that plans, if still planned, will be delivered, and the provision for risk is reasonable given its amount and likelihood. The assessment of general balances considers risks and uncertainty not provided for as earmarked reserves or contingency budget.

The level of reserves is reviewed regularly. This assessment draws on my report to the Board of Commissioners in December 2011 and updated in my report to the Board on 20 February, which took account of the third quarter budget monitoring report for 2011-12.

In these reports, we referred to:

- A projected level of balances of £5.9m by year end - £0.9m higher than planned;

- Earmarked reserves being generally appropriate, with £0.3m identified as no longer being required;

- Schools reserves still being high in comparison to the rest of Wales.

The projected improvement in 2011-12 leads to the general balances being above the level I would judge “adequate” and enabled the Commissioners to propose the release of £0.9m (together with £0.3m from earmarked reserves) to finance severance costs and other related one off costs. Given the scale of the budget savings and cuts this year, it is unlikely that £1.3m will be sufficient for this purpose and in order to avoid the situation where the one off cost of termination might be a barrier to achieving ongoing savings, I have recommended that, as an exception to normal arrangements, it should be possible for the Chief Executive as Head of Paid Services and in consultation with the s151 Officer to release up to another £1m from balances for this purpose. Use of this £1m would bring the projected level of general balances down to a level of £4m by the end of 2012-13. This level is low in the context of the continuing economic pressures and as a result, it is vital that a system is in place to monitor the achievement of this year’s savings and bring forward a programme of additional cuts for 2012-13 and future years. It is intended that targets are set for Services as part of their Business Plans in the forthcoming period.

Previous year savings programmes continue to pose a challenge and in particular the effect of the cost of terminations in previous years. The termination costs in 2011-12 had originally, been due to be repaid from service budgets over four years from 2011-12 but the improvement in financial position during 2010-11 had allowed that first repayment to be deferred until 2012-13. The position was due to be reviewed again now. The deterioration in the budget for 2012-13 has meant that further deferral until 2013-14 has been agreed.

4. ACHIEVING THE BUDGET

Once the 2012/13 budget is agreed there will be a further programme of cuts and efficiencies to add to the current APP programme. That will provide an opportunity to review the whole savings programme and to put arrangements in place to support these so that the budget is achievable. Key to achieving delivery of all budgets will be bringing under control those budgets which are in deficit, including schools. As well as focusing on cuts, there is clearly a risk relating to funding streams and general income. A number of actions have been identified to support the funding and income:

- A project to optimise numbers registered as eligible for school meals;
- Closer monitoring of specific grants;
- Programme of Council Tax discount and exemption reviews;
- Closer monitoring of fees and charges.

The 2012/13 programme of savings and efficiencies is more significant and brings with it additional risks. It is clear that these savings programmes need to be managed as a fundamental part of the corporate budget monitoring arrangements and risk assessed. The key areas identified as a risk to the Council in terms of delivering both the savings programme and the base budget will need both strong project management and financial support to assist in achieving delivery of the overall budget. These will be put in place shortly to maximise the use of project and financial management skills and resources to manage the whole Council budget.

5. THE PRUDENTIAL CODE AND TREASURY MANAGEMENT

The legislative framework introduced by the Local Government Act 2003 requires the Council to have regard to The Prudential Code for Capital Finance in Local Authorities. The Executive has already affirmed this. The primary requirements of the Prudential Code are that authorities should have regard to affordability and prudence.

Affordability
The Commissioners budget proposals have regard to affordability. As always, the capital budget is financed by a combination of external grants, capital receipts, revenue funds and borrowing. Anticipated funding from grants is linked to what is approved or realistically achievable; some spending proposals are to be included in the capital budget but subject to confirmation of grants: if the grants are not confirmed, the schemes will fall. Capital receipts are based on sales made or in progress or included in the agreed Outcome Agreements with WG; amounts expected but not yet confirmed as definite have been discounted, with any surplus or shortfall being carried forward to future years' budgets. Revenue funding is in place, consistent with the revenue budget.

Unsupported Borrowing
The Treasury Management report deals with the circumstances in which unsupported borrowing is used. Unsupported borrowing within the Housing Revenue Account and consistent with the approved Housing Stock business plan continues, as does the contingent use of unsupported borrowing by the Council Fund to support spend-to-save schemes.

The Treasury Management Strategy assumes a successful bid for Local Government Borrowing Initiative funding for the three years from 2012-13. Borrowing projections have been increased by the Authority's estimated share of £170m for Wales (up to £5.25m). However, the expectation is that specific revenue grant is received to cover the modelled cost of debt repayment.

The medium term revenue budget strategy had allowed for capital financing costs on up to an additional £2 million a year of unsupported borrowing from 2011- 12 in order to compensate for loss of WG capital. This helps to demonstrate that such borrowing would be affordable. This was not taken up in the year and has been deferred to 2013-14. However, the interim capital budget and the proposed Treasury Management policy do not assume this borrowing will take place, and the Council is not yet asked to authorise this additional level of borrowing. Only when specific capital expenditure plans are in place that requires this borrowing will the Council be asked to authorise this.

Local Authority Mortgage Scheme
The Housing Service is working on a proposal to take part in a national initiative to support the provision of mortgages by the banking sector for first time buyers. Effectively, the Authority uses the strength of its balance sheet to guarantee the loans. Again the proposed Treasury Management policy does not assume this initiative will be adopted locally, and the Council is not yet asked to authorise implementation. Only when specific proposals are in place will the Council be asked to authorise them.

Treasury Management Strategy
The necessary Treasury Management policies are included this year in Annexe A to this report. I recommend that these should be adopted.

6. COUNCIL RESOLUTION

The draft Council resolution covers all matters on which a decision is required arising out of the Commissioners' proposals and this report.

For 2011-12, the resolution included the setting of new rates for members allowances for that year. For 2012-13 onwards, rates of remuneration for members are prescribed by the Independent Remuneration Panel for Wales rather than by individual authorities.

The Council's draft budget requirement includes formal levies by the following bodies:

£	2012-13	2011-12 COMPARISON
North Wales Fire Authority	3,217,270	3,236,545
Malltraeth Marsh Internal Drainage Board	1,870	1,850
Board of Conservators of Towyn Trewan	1,500	1,500

and the draft resolution includes precepts by the North Wales Police and the 40 community councils as separate items at 6dd and 7.

7. OVERALL POSITION

Having regard to the Budget Strategy, to economic projections and to the reported position on robustness of estimates and adequacy of reserves, my recommendation is that the increase in council tax for 2012-13 should be no lower than 4.5% and that the target level of general balances should be no lower than £5m.

GILL LEWIS
INTERIM SECTION 151 OFFICER **28 FEBRUARY 2012**