Notice is hereby given that a **MEETING** of the **COUNCIL OF THE BOROUGH OF GOSPORT** will be held in the **TOWN HALL, GOSPORT** on **WEDNESDAY** the **THIRD DAY** of **FEBRUARY 2010** at **THE CONCLUSION OF THE POLICY & ORGANISATION BOARD BUT NOT BEFORE 6.45 PM AND ALL MEMBERS OF THE COUNCIL ARE HEREBY SUMMONED TO ATTEND TO CONSIDER AND RESOLVE THE FOLLOWING BUSINESS –**

1. To receive apologies from Members for their inability to attend the Meeting.

2. To confirm the Minutes of the Extraordinary and Ordinary Meetings of the Council held on 25 November 2009 (copies herewith).

3. To consider any Mayor's Communications.

4. To receive Deputations in accordance with Standing Order No 3.5 and to answer Public Questions pursuant to Standing Order No 3.6, such questions to be answered orally during a time not exceeding 15 minutes.

   (**NOTE:** Standing Order No 3.5 requires that notice of a Deputation should be received by the Borough Solicitor **NOT LATER THAN 12 O'CLOCK NOON ON MONDAY, 1 FEBRUARY 2010** and likewise Standing Order No 3.6 requires that notice of a Public Question should be received by the Borough Solicitor **NOT LATER THAN 12 O'CLOCK NOON ON MONDAY, 1 FEBRUARY 2010).**

5. Questions (if any) pursuant to Standing Order No 3.4.

   (**NOTE**: Members are reminded that Standing Order No 3.4 requires that Notice of Question pursuant to that Standing Order must be received by the Borough Solicitor **NOT LATER THAN 12 O'CLOCK NOON ON TUESDAY, 2 FEBRUARY 2010**).

6. Consideration of recommendations by the Boards of the Council:-

	BOARD	**DATE**
(i)	Housing Board	*03 February 2010 (Grey sheets)
(ii)	Policy & Organisation Board	*03 February 2010 (Grey sheets)

* These minutes are ‘To Follow’.

7. To receive the following Part II minutes of the Boards of the Council:

- Policy and Organisation Board: *25 January and *3 February 2010 (Old Gold sheets)
- Community and Environment Board: 18 January and *3 February 2010 (Light Green sheets)
- Housing Board: 20 January and *3 February 2010 (Lavender sheets)

* These minutes are ‘To Follow’.

8 Harbour Economic Development Forum

There is currently a vacancy for a Councillor on the Harbour Economic Development Forum for the remainder of the Municipal Year. Therefore Council is recommended to nominate a Councillor to this Outside Body for the remainder of the 2009/10 Municipal Year.

9. Election of Mayor and Deputy Mayor 2010/2011.

In accordance with Standing Order No 2.4 the Borough Solicitor has written to Group Leaders and Members of the Council inviting them to submit Member nominations for the selection of Mayor-Elect and Deputy Mayor-Elect for the next Municipal Year.

The Liberal Democrat Group has advised the Borough Solicitor that a nomination from their Group for Mayor Elect 2010/11 will be available after 1 February 2010. Councillor Allen has been nominated for Deputy-Mayor Elect for the 2010/2011 Municipal Year.

IAN LYCETT
CHIEF EXECUTIVE

TOWN HALL
GOSPORT

26 January 2010

FIRE PRECAUTIONS

(To be read from the Chair if members of the public are present)

In the event of the fire alarm (single continuous sound) being activated, please leave the Council Chamber and Public Gallery immediately. Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or

mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

MEMBERS ARE REQUESTED TO NOTE THAT:

(1) IF THE COUNCIL WISHES TO CONTINUE ITS BUSINESS BEYOND 9.30PM THEN THE MAYOR MUST MOVE SUCH A PROPOSITION IN ACCORDANCE WITH STANDING ORDER 4.11.18

(2) MOBILE PHONES SHOULD BE SWITCHED OFF FOR THE DURATION OF THE MEETING

APPENDIX HO1
(Minutes to be tabled on 3 Feb 10)

Board/Committee:	**HOUSING BOARD**
Date of Meeting:	**3 FEBRUARY 2010**
Title:	**COUNCIL DWELLING RENTS 2010/11**
Author:	**FINANCIAL SERVICES MANAGER AND HOUSING SERVICES MANAGER**
Status:	**FOR RECOMMENDATION TO COUNCIL**

Purpose

This report considers the Board's revised 2009/2010 budget and the 2010/2011 budget for the Housing Revenue Account and makes recommendations on rent levels for next year.

Recommendations

The Board is requested to recommend to Council its requirements for increases from the 5 April 2009 as described below:

1) The average weekly Council Dwelling rents to increase by 3.1%

2) Garage rents to increase by £1 per week plus 3.1%.

1.0 Background

1.1 This report considers the revised budget for 2009/2010 and the budget for 2010/2011 for the Housing Revenue Account (Appendix A).

1.2 The report makes recommendations on rent levels for next financial year. A schedule detailing proposed rent levels is attached at (Appendix B).

2.0 Housing Revenue Account (HRA)

2.1 The HRA revised Council house maintenance budget for 2009/2010 is £2.534M, an increase of £78,000 on the original budget. The Council house maintenance budget for 2010/2011 is £2.532M representing a £2,000 reduction on the 2009/2010 revised estimate.

2.2 It is anticipated that HRA balance level will decrease to approximately £383,000 from the current balance of £490,000 by the end of the financial year 2009/2010. This is still significantly below the target level of £800,000 identified within the Medium Term Financial Strategy. The major variances to the original budget have occurred in the following areas:

- The rental income figure is reduced due to the fact the original figure was based on a rent increase of 6.8% which of course was reduced to 3.1% at very short notice in March after the budget had been agreed. This reduction is partly offset by the reduction in subsidy payable to the Government.
- Management costs have increased by £21,000 primarily due to an increase in Sheltered Scheme staffing costs and temporary staff required in Operational Services, although this has been largely offset by savings identified elsewhere.

2.3 It is anticipated that the HRA balance will increase to £649,000 by the end of 2010/2011. This recovery in reserves is due to a number of factors including the reduced depreciation charge and a reasonably favourable subsidy settlement.

2.4 The housing subsidy settlement for 2009/10 for this Council shows a reduction of £615,000 payable to the Government compared to the original budget. This is because the original figure was based upon the 6.8% rent increase. It was subsequently reduced to £3,209,000 after the lower rent increase and further reduced by £300,000 with the variation on MRA funding. The DCLG made an additional offer of £300,000 in advanced MRA funding for this authority to help with Decent Homes work. The total amount of subsidy payable for 2009/10 was subsequently reduced by this amount. The depreciation charge which for accounting purposes is equal to the MRA but payable through the HRA subsequently increased by £300,000 to give a zero net effect on budgets.

2.5 The draft subsidy settlement for 2010/11 results in a requirement to pay £3,395,000 to the Government, an increase of £486,000 from that payable in the current year. This is partially offset by the rental income increase of £369,000. The reduction in depreciation due to the accounting adjustment as mentioned in 2.4 (on advanced MRA of £300,000) helps recoup much of the deficit from 2009/10, as does the slight reduction in this authorities guideline rent increase(see 4.4).

3.0 HRA Capital Programme

3.1 The Capital Programme for 2009/2010 to 2014/2015 is shown on page 46 of the draft budget book. The HRA Capital Programme totalling approximately £2.600M in the revised budget for 2009/2010 is funded from the Major Repairs Allowance (MRA) £2.543M and HRA funding of £57,000. The Capital Programme for 2010/2011 is £2.324M .

3.2 The expenditure for 2010/2011 of £2.3M is to be financed primarily from MRA of £1.965M and the remainder will be met from borrowing.

4.0 HRA Subsidy

4.1 There has been an increase in the formula for Management and Maintenance allowances in the Notional HRA. The increase is

£226,000 or 4.3%. The allowance will increase from £5.267M to £5.493M.

4.2 The MRA has increased from £690 per property in 2009/2010 to £703 in 2010/2011, an increase of 1.9%. The MRA provides the Council with the resources to maintain the condition of its housing stock over the long term and keep on track to achieve the Decent Homes Standard by 2010.

4.3 There are further changes in the methodology for calculating formula rents.

4.4 The proposed date for rent convergence has been moved back again to 2013/2014.This has been done to enable the guideline rent to be reduced to 3.1%. The Government hope that this will keep rent increases to around the level of guideline rent increases mentioned earlier. The Government assumes that all Authorities are now close to their guideline rents when it makes its subsidy calculations, although this Council's actual rents are substantially below this figure, which equates to lost revenue to the HRA. The Government assumes this Council will be charging close to guideline rent at £66.09 per property per week: whereas the actual charge will be £62.40. With the likelihood of the Governments offer on HRA subsidy reform (as discussed at the October extraordinary Housing Board) coming before the financial year end no comment can be currently made on future subsidy determinations.

5.0 <u>2010/11 Rent Level Proposals</u>

5.1 The Government policy of Rent Restructuring came into effect in 2002/2003 and a review of the policy took place during the summer of 2004. This was discussed in detail in the HRA Council dwellings report for 2006/2007.

5.2 This authority has benefitted from work done on the most recent subsidy return and its guideline rents have reduced by £0.32 per property from their original 2010/11 level of £66.41. The guideline rent is now at £66.09 per property per week and the actual average rent with the 3.1% proposed increase is now at £62.40. This still means that we are some way below the rent level that the Government assumes when calculating our subsidy payment. As reported in October 2009 this results in a significant loss of income for Gosport.

5.3 Actual rents will have to increase by £1.90 (3.1%) on average in order for this Council to restore the HRA working balance to a more acceptable level.

5.4 In 2001, changes were made to the way that the Government subsidised the HRA, by introducing Rent Restructuring. Under a process known as 'convergence', the rents of Gosport Borough Council properties have been increased incrementally each year, so as to reach the restructured levels by 2013/14. It is likely that this date will be moved again or removed completely when the HRA reform offer is finalised.

5.5 It is proposed to increase rent levels for garages, by £1 per week plus 3.1% as detailed in June's Housing Board report. The proposal for parking spaces is that they increase in line with rents.

6.0 Risk Assessment

6.1 The HRA is currently considered to be one of the higher risk areas of this Council's budget and as a result of the Government's proposals to reform the subsidy system the current position is particularly uncertain. In addition balance levels are significantly lower than what is considered to be the minimum level required to provide a reasonable safeguard against such risks. It is therefore seen as particularly important that the proposals relating to rent levels are approved to enable restoration of the balance to an acceptable level.

6.2 It is likely that any offer to this Council to withdraw from the subsidy system by taking on debt will be based on guideline rent levels rather than actual rents charged. Any further increase in the difference between the Councils actual rents and guideline rents will reduce the likelihood that such an offer will be accepted.

7.0 HRA Balance Levels

7.1 The Medium Term Financial Strategy currently states that the Council should move towards a target figure of £250 per property (approximately £800,000). The anticipated balance mentioned in 2.2 above are below this level and to ensure that they are restored to a more acceptable level it is essential that the proposed rent increase is approved.

8.0 Other Properties

8.1 There are a small number of other properties where the rent levels are assessed in line with HRA properties. The proposal is to also increase these by 3.1%

9.0 Conclusions

9.1 The proposed average rent increase of 3.1% is in accordance with the percentage increase in guideline rent within the Government's Housing Subsidy Settlement 2010/11. This Council's actual rent is still significantly lower than the guideline rent level included within the subsidy settlement.

Financial Implications:	As set out in the report
Legal Implications:	The Council is under a duty to set a budget which prevents the Housing Revenue Account becoming overdrawn.
Service Improvement Plan Implications:	The meeting of the Decent Homes Standard by 2010 is a key Service Improvement Plan (SIP) objective of the Housing Service

Corporate Plan:	More effective performance management, which includes making the best use of our assets, is a strategic priority in the Corporate Plan.
Risk Assessment:	As set out in the report
Background Papers:	Draft Budget Book and Fees and Charges
Appendices/Enclosures:	Appendix A Appendix B
Report Author/Lead Officer	Tim Hoskins and Julian Bowcher

APPENDIX PO1
(Minutes to be tabled on 3 Feb 10)

GOSPORT BOROUGH COUNCIL

BOARD/COMMITTEE:	**POLICY & ORGANISATION BOARD**
DATE OF MEETING:	**3 FEBRUARY 2010**
TITLE:	**COUNCIL BUDGET 2010/11**
AUTHOR:	**DEPUTY CHIEF EXECUTIVE & BOROUGH TREASURER**
STATUS:	**FOR RECOMMENDATION TO COUNCIL**

SUMMARY OF REPORT AND RECOMMENDATIONS

The report outlines the financial situation of the Council's General Fund in the current year and, after consideration of the main factors affecting the outlook for 2010/11 including Exchequer support and reserve levels, recommends a budget level for that year. **The proposed budget is expected to result in no increase in the level of Council Tax for the Borough Council's requirements after taking account of reserve and tax collection fund balances.**

RECOMMENDATION

It is recommended that the Board consider the budget requirements of all of the Council's Boards (including Fees & Charges and Capital Programme) and recommend to Council a revised 2009/10 budget totalling £12,972,000 and a budget for 2010/11 totalling £12,844,100 (net of a contribution from reserves of £114,110).

1.0 **PURPOSE OF REPORT**

1.1 To recommend budget levels for General Fund services for 2010/11 and help determine, in due course, the level of Council Tax to be levied in the Borough. (The Council Tax level for 2010/11 will be set by Council on 22 February 2010 when precepting authorities' requirements are known).

1.2 The Local Government Act 2003 requires the Council to consider whether its budget is balanced with appropriate levels of reserves. The currently proposed budget is balanced and any proposed amendments must be considered in this context. In particular, any further reduction of the budget or reserves will have a detrimental impact on the forecasts for future years and affect the Council's ability to maintain adequate service levels and fund the proposed capital programme.

2.0 NATIONAL ISSUES

2.1 The credit crunch and ensuing recession have had a severe effect on public services generally, impacting adversely on income streams and increasing demand for services. It is also apparent that the national council tax base has not grown as fast as grant calculations anticipated, as developers have halted construction works pending a recovery in the property market.

2.2 In order to rebalance the economy in the longer term there will need to be substantial reductions in public sector expenditure. This will need to go beyond efficiency savings and will require service cuts. It is possible that there will need to be legislative changes to facilitate this.

2.3 Exchequer funding levels for 2010/11 have been maintained at previously indicated levels but no reliable forecast is available for 2011/12 and beyond. Latest advice suggests that, at best, grants may be frozen at current cash levels and, at worst, may be reduced by 3% or more each year. The provisional settlement for 2011/12 will not be available before December 2010 and will probably only be for 1 year rather than the planned 3 years.

2.4 Several other sources of Government grant funding are also due to be withdrawn after 2010/11, including Housing and Planning Development Grant.

2.5 It is likely that Concessionary Travel responsibilities will transfer to upper tier authorities from 2011/12 and the effect of this on District Council finances is unpredictable as grant formulae will have to be changed. Current proposals are not considered equitable but there will be further consultations by Government during 2010.

2.6 Reserve powers for the capping of Council budgets still exist and the Government have made it clear that these powers will be used if necessary.

3.0 THE LOCAL FINANCIAL SITUATION

3.1 The financial outlook for Gosport has been extremely challenging for several years and, whilst balanced budgets have been produced, economies made and forecast commitments pushed back, a severe financial shortfall will become inevitable unless fundamental changes are made to the underlying levels of expenditure and income.

3.2 This situation has been compounded by the problems that have arisen in the national economy. Income streams have deteriorated, demands for services such as Homelessness have begun to increase and, for the first time on record, Gosport's tax base on which council tax is levied has reduced with the collection fund moving in to deficit (reflecting the lack of new building due to the recession and the effect of banding appeals). Whilst this situation is temporary, full recovery is likely to take several years and a major reassessment of priorities and budgets will be necessary in the near future in order to continue to manage within available resources.

3.3 The Revenue Support (Exchequer) Grant for 2010/11 of £7,296,452 is only £36,300 higher than the current year, a 0.5% cash increase. Whilst no firm indication has yet been given, it is unlikely that Gosport will receive any cash increase in grant over the next 2-3 years. Indeed, substantial reductions are possible as current grant levels have been protected by a "grant floor" since 2008/9 and this safety net is due to be removed after 2010/11.

3.4 Conclusions about the adequacy of the proposed budget are based on both an examination of various aspects that are summarised in a risk assessment and the knowledge that services are being reviewed in order to achieve efficiencies in the longer term. The proposed budget assumes that further savings or economies can be achieved during the coming year, making use of the revenue financing reserve on a spend-to-save basis where appropriate.

4.0 RESERVES

4.1 General Fund provisions available for general use comprise a Working Balance and the Revenue Financing Reserve. The Working Balance enables the Council to meet unexpected demands on its resources such as increased inflation or demand for statutory services and provides a cushion against uneven cash flows, reducing the need for temporary borrowing. Revenue Financing Reserve is an earmarked reserve, used to ensure that fluctuations in annual maintenance requirements can be met, to underwrite uninsurable risks and for funding spend-to-save revenue and capital initiatives. Maintaining a viable Revenue Financing Reserve is essential for further improving the management of the Council's finances and delivering the level of savings assumed in the proposed budget.

4.2 It is not proposed to increase the Council's Working Balance and provision for reserves is made in the 2010/11 budget as follows: General Fund Working Balance will remain at £890,000 and Revenue Financing Reserve will be set at £659,440.

5.0 THE PROPOSED BUDGET

5.1 REVENUE

5.1.1 The revised budget totals £12,972,000, the same as the original. The draft budget book contains a list of variations that have arisen between the Council's original spending plans for the current year and the latest estimate of expenditure and income. There are a number of substantial variations, many of which have previously been anticipated in budget monitor reports, plus a large number of smaller variations. As volatility of the budgets has increased during the year, particularly as economic conditions have deteriorated, risks associated with the budgets have also increased. Generally, significant losses in income due to the recession and additional costs of concessionary travel have been offset by savings on financing costs, increased recycling income and a one-off VAT windfall.

5.1.2 The total proposed net budget for 2010/11 is £12,844,100 and this represents a decrease of £127,900 (1.0%) on the original budget for the current year when transfers to and from reserves are included. The main variations adversely affecting the 2010/11 budget are the continuing loss of income (over £100,000), primarily due to the deterioration in the national economy, additional financing charges of over £300,000, concessionary travel costs (an extra £110,000) and inflation of approximately £250,000. These have been offset by substantial savings and efficiencies, one-off LPSA2 performance reward grants of £283,000 and recycling income of £110,000.

5.1.3 Significant efficiencies have been incorporated in to the 2010/11 budget in accordance with the approved budget strategy. Specifically, debt restructuring, staffing reviews and reduced administration and support service costs have reduced the required budget by more than £300,000.

5.2 CAPITAL

5.2.1 A separate report dealing with Treasury Management Strategy and Prudential Code of Borrowing for the coming year is on the agenda for recommendation to Council.

5.2.2 The Council's capital programme for the 6 years to 2014/15 amounts to over £38M and will require substantial use of capital receipts and borrowing.

5.2.3 There is a direct impact on revenue budgets arising from the capital programme and, where expenditure is not supported by Government grant, a resulting council tax requirement. (See para. 6.1 & Appendix 2). The ability of the Council to properly maintain and improve its assets is a concern, principally because of the revenue impact. The amount of discretionary capital expenditure in the capital programme is being strictly controlled as the Council can only use the prudential code justification for funding new capital investment if it can be demonstrated that the revenue consequences are affordable.

5.3 COUNCIL TAX

The budget of £12,844,100 for 2010/11 will result in no change in Gosport's share of the Council Tax when that is set on 22 February 2010. The Band D tax should remain at £202.81 for 2010/11.

5.4 OPTIONS

Based on provisional data, the Council Tax increases resulting from alternative 2010/11 budget levels are as follows:

BUDGET £M	TAX RISE %
12.844	0
12.956	2.0
12.984	2.5
13.096	4.5

Due to the overdependence in 2010/11 on one-off savings and grants that are due to be discontinued, substantial changes will have to be achieved within the next two years in order to produce a sustainable budget level within the constraint of continued capping.

6.0 **BEYOND 2010/11**

6.1 A 4-year projection of revenue commitments (Appendix 2) indicates further pressures on budgets. A significant proportion of the projected increases continues to relate to the expected costs of major contracts that are due to be retendered and the revenue impact of the Capital Programme.

6.2 Projected budget totals including these commitments and inflation are as follows:

	Budget £'000	**Budget Increase** %	**Potential Council Tax** Increase %
2011/12	13,732	6.9	14.1
2012/13	13,927	1.4	2.3
2013/14	14,269	2.5	4.4
2014/15	14,794	3.7	4.7

6.3 It is essential that a substantial reduction is made in these commitments in the short term (1-2 years) as it is unlikely that the Council would be allowed to increase Tax levels by any more than 5%.

7.0 **CONCLUSION**

7.1 The proposed 2010/11 budget of £12,844,100 is balanced and will result in no change in the level of Council Tax required for the Borough Council's purposes. The outlook for 2011/12 and beyond is substantial upward pressure on budgets and the Council's Budget Strategy for 2011/13 will address this when it is considered during summer 2010.

7.2 A budget book containing the budget as finally approved will be circulated by April.

Financial Implications:	Council's General Fund Budget, Capital Programme and Council Tax level for 2010/11
Legal Implications:	The Council has to set a balanced budget and is also under an obligation to carry out its functions effectively, efficiently and economically
Service Improvement Plan implications:	The budget submissions reflect both service improvement plans and the corporate plan.
Corporate Plan:	Ditto.
Risk Assessment:	See Appendix 1
Background papers:	Draft Budget Book Draft Fees and Charges Book Budget working papers
Appendices/Enclosures:	1. Risk Assessment 2. 4 year projection
Report Author/Lead Officer	Peter Wilson

APPENDIX 1

BUDGET RISK ASSESSMENT (GENERAL FUND)

Budget Area	Risk	Budget £'000	Likelihood	Revenue Impact	Comment
Concessionary Fares	Increased costs.	>1,000	H	H	Cost of national bus pass scheme remains a concern.
Political Balance	Problems delivering difficult decisions	N/A	H	H	
Capital Programme	Failure to raise necessary financing	N/A	H	M/H	Economic climate may not facilitate the raising of the required level of new capital receipts
Homelessness	Additional demand.	1,728	H	M	
Gosport Market Income	Reduction in stall numbers.	140	H	L	
General Income	Shortfall due to unpredicted demand changes.	2,903	M	H	Budget reflects prudent income forecasts.
Revenue Support Grant	Data/Formula review	7,296	M	H	Substantial reductions possible from 2011/12
Housing Benefits	Overpayment rates &/or demand increase, grant formula change.	26,490	M	M	
Land Charges Income	Recession/policy change.	165	M	M	
Insurance	Claims experience deteriorates.	135	M	M	Fire claims & susceptibility to storm damage are of concern.
Inflation	Exceeds allowance.	250	M	M	Inflation is currently rising above budgeted levels.
Savings & efficiencies	Target cannot be achieved.	390	M	M	Budgeted provision is considered achievable
Interest Income (net)	Reduces from forecast or capital receipts & deposits get spent earlier than anticipated.	28	M	M	The economic climate & the need to fund major projects increase vulnerability to risk.
Maintenance	Inadequate provision.	390	M	L	Essential expenditure has been provided for.

NOTES

1 Assessment takes account of past trends and budget monitoring.

2 Likelihood: High = most years, Medium = Occasional, Low = rare.

3. Impact: High = over £100,000; Medium = £50 – 100,000; Low = less than £50,000

APPENDIX 2

PROJECTED GENERAL FUND FOR THE YEARS TO 2014/15
(AT CURRENT PRICES)

			(£'000)		
		2011/12	**20012/13**	**2013/14**	**2014/15**
A	2010/11 Base Budget	12,844	12,844	12,844	12,844
B	Revenue Increases				
	Major Contract re-tendering	300	300	300	300
	Reserves and one-off savings	216	216	216	216
	Grants	423	423	423	423
	Other	2	7	12	17
		941	946	951	956
C	Additional Financing Charges *****	-	197	237	304
D	(A+B+C)	13,785	13,987	14,032	14,104
E	Less Revenue Decreases				
	Local Elections	53	-	53	-
	Leisure Centre running costs	-	80	80	80
	Priddy's Hard	-	50	50	50
	Succession/restructuring	150	350	400	400
	Revenue Streams	50	80	80	80
		253	560	663	610
F	**PROJECTED BUDGET TOTALS** (D-E)	13,532	13,427	13,369	13,494

*****Arising from the Capital Programme and accounting requirements

A MEETING OF THE COMMUNITY AND ENVIRONMENT BOARD WAS HELD ON 18 January 2010

The Mayor (Councillor Mrs Searle) (ex-officio); Chairman of the Policy and Organisation Board (Councillor Hook) (ex-officio) (P); Councillors Beavis (P), Burgess (Chairman) (P), Cully (P), Edgar (P), Mrs Forder (P), Forder (P), Kimber (P), Mrs Mitchell-Smith (P), Murphy (P) and Wright (P).

PART II

35. PRESENTATION – UK CLIMATE IMPACT PROFILE FOR GOSPORT

A presentation was given by Alan Williams, Environment Futures Manager, Hampshire County Council.

Members were advised of the UK Climate Projection possibilities for the future, particularly the projections for the South East and Hampshire and were provided with an introduction the Hampshire Vision and Strategy for Climate Change.

In answer to a Member's question, it was clarified that the projections for future summers could include more intense rainfall over shorter time periods.

Members queried whether provision had been made within the action plan for the retention and storage of excess water from the projected increase in rainfall. The Board were advised that consultation was currently being undertaken in Havant and North Hampshire for the provision of two new reservoirs.

In answer to a Member's question, Mr Williams advised that the importance of trees in reducing carbon levels had been acknowledged, but that it had been recognised in professional journals that the planting of additional trees would not be sufficient to combat increasing carbon levels.

Mr Williams advised the Board that there were no current plans to reassess the scientific data used to inform the projections.

36. ALVER VALLEY – MANAGEMENT OF FISHING LAKE

Consideration was given to a report of the Leisure and Cultural Services Manager advising the Board of the recommended action agreed by the Alver Valley Steering Group in respect of the future management of the Alver Valley fishing lake.

RESOLVED: That:

(i) the grant of a lease of the Council land shown on Plan 1, attached to the report, on terms to be agreed by the Council's Head of Property Services, be approved;

(ii) the Borough Solicitor be authorised to enter into such documentation as is necessary to effect the above decision in consultation with the Head of Property Services; and

(iii) authorisation be sought from the Policy and Organisation Board to proceed with the above resolutions.

37. NEW STORE AT MIDDLECROFT ALLOTMENTS

Consideration was given to a report of the Director of Economic Development, Tourism and the Arts which sought approval for the grant of a lease of land to the Allotment Holders Association for the purpose of constructing a new store in the location shown coloured red on Plan 1, attached to the report.

RESOLVED: That:

(i) the grant of a lease of the Council land shown on plan 1, attached to the report, on terms to be agreed by the Council's Head of Property Services be approved

(ii) the Borough Solicitor be authorised to enter into such documentation as is necessary to effect the above decision in consultation with the Head of Property Services; and

(iii) authorisation be sought from the Policy and Organisation Board to proceed with the above resolutions.

38. ANY OTHER ITEMS

Councillor Forder provided a verbal update to the Board as the Gosport Borough Council representative on SCOPAC (Standing Conference on Problems Affecting the Coastline).

The meeting commenced at 6.00 pm and concluded at 6.50 pm

A MEETING OF THE HOUSING BOARD
WAS HELD ON 20 JANUARY 2009

The Mayor (Councillor Mrs Searle) (ex-officio), Chairman of Policy and Organisation Board (Councillor Hook) (ex-officio) (P), Councillors Allen (P), Beavis, Mrs Cully (P), Edwards (P), Geddes (P), Gill (P), Hylands (P), Mrs Mitchell-Smith, Mrs Mudie (P), and Philpott (Chairman) (P).

It was reported that, in accordance with Standing Orders, Councillor Kimber had been nominated to replace Councillor Beavis for this meeting.

Also in attendance: Tenant Representative – Mrs Annie Barnes

PART II

37 TENANCY AGREEMENT REVIEW

Consideration was given to a report of the Housing Services Manager which outlined progress on updating the current Tenancy Agreement and the results of the consultation process. The report sought approval for the proposed changes to that agreement.

Concerns were raised regarding the possible situation where a joint tenant may surrender a tenancy without the knowledge of the other tenant or tenants. Members agreed that, in order to protect those other tenants as much as possible, a further recommendation to the report should be made that internal procedures dealing with the ending of a joint tenancy by one of the joint tenants be reviewed and amended.

Members were advised that existing internal procedures ensured that officers discussed the tenancy agreement with new tenants during the signing up process and that those new tenants requiring support received additional help as necessary.

RESOLVED: That:

a) the changes to the tenancy agreement set out in paragraph 2.2. of the Housing Services Manager's report be approved;

b) approval be given for a formal Notice of Variation to be served on all applicable tenants;

c) the inclusion of the changes in the revised secure Tenancy Agreement terms and conditions in the ancillary Introductory Tenancy Agreement be approved;

d) delegated authority be given to the Housing Service Manager to make minor changes to the proposed Tenancy Agreement that arise as a result of the Notice of Variation; and

e) internal procedures dealing with the ending of a joint tenancy by one of the joint tenants be reviewed and amended.

The meeting commenced at 6.00 pm and concluded at 6.29 pm.

APPENDIX A

COUNCIL HOUSING

	ORIGINAL 2009/2010 £000	REVISED 2009/2010 £000	BUDGET 2010/2011 £000
HOUSING REVENUE ACCOUNT			
Income			
Dwelling Rents	10,691	10,272	10,641
Shops & Garages	240	240	294
Service Charges	395	395	395
	11,326	10,907	11,330
Expenditure			
Management	2,805	2,826	3,015
Maintenance	2,456	2,534	2,532
Rents, Rates, Taxes, Other Charges	77	45	45
Cost Of Capital / Deferred Charges	0	0	0
Depreciation	2,234	2,543	1,965
HRA Subsidy	3,524	2,909	3,395
	11,096	10,857	10,952
Net Cost Of Services	(230)	(50)	(378)
Financing Adjustment	0	0	0
Item 8 Debit	189	187	132
HRA Investment Income / Mortgage Interest	(20)	(30)	(20)
	169	157	112
Net Operating Expenditure	(61)	107	(266)
Capital Expenditure funded from Revenue	0	0	0
Housing Revenue Account Balance			
Surplus at beginning of Year	418	490	383
Surplus / (-) Deficit for Year	61	(107)	266
Surplus at end of Year	479	383	649

APPENDIX B

TYPE	bedroom	bedroom	bedroom	bedroom	bedroom	
	1	2	3	4	5	Grand Total
Bedsit	12					12
Bungalow	314	63	11			388
Flat	950	59	17			1026
House	10	306	917	83	1	1317
Maisonette	24	108	58	2		192
Sheltered Bedsit	13					13
Sheltered Bungalow	52					52
Sheltered Flat	143	5				148
Grand Total	1518	541	1003	85	1	3148 *

* excluding Barclay House, Roger House, communal houses

Average of percentrage	bedroom					
TYPE	1	2	3	4	5	Grand Total
Bedsit	7.0%					7.0%
Bungalow	4.0%	0.9%	0.7%			3.4%
Flat	3.0%	1.0%	1.7%			2.8%
House	2.8%	3.9%	3.0%	2.6%	3.1%	3.2%
Maisonette	0.0%	3.5%	3.4%	3.1%		3.0%
Sheltered Bedsit	6.7%					6.7%
Sheltered Bungalow	6.2%					6.2%
Sheltered Flat	3.1%	0.5%				3.0%
Grand Total	3.3%	3.1%	2.9%	2.7%	3.1%	3.1%

Average Increase Amount	bedroom	bedroom	bedroom	bedroom	bedroom	
TYPE	1	2	3	4	5	Grand Total
Bedsit	3.11					3.11
Bungalow	2.35	0.64	0.59			2.02
Flat	1.66	0.66	1.24			1.60
House	1.74	2.61	2.22	2.16	2.51	2.31
Maisonette	0.00	2.22	2.30	2.52		1.97
Sheltered Bedsit	3.03					3.03
Sheltered Bungalow	3.51					3.51
Sheltered Flat	1.49	0.32				1.45
Grand Total	1.85	2.07	2.19	2.17	2.51	2.01

Max rent Increase	bedroom					
TYPE	1	2	3	4	5	Grand Total
Bedsit	3.52					3.52
Bungalow	3.92	4.06	2.48			4.06
Flat	3.78	3.97	2.32			3.97
House	1.93	4.34	5.15	5.23	2.51	5.23
Maisonette	0.00	3.93	4.14	2.52		4.14
Sheltered Bedsit	3.24					3.24
Sheltered Bungalow	3.81					3.81
Sheltered Flat	3.59	1.61				3.59

Min of existing rent □	bedroom					
TYPE	1	2	3	4	5	Grand Total
Bedsit	2.84					2.84
Bungalow	Nil Increase	Nil Increase	Nil Increase			0.00
Flat	Nil Increase	Nil Increase	Nil Increase			0.00
House	Nil Increase	Nil Increase	Nil Increase	Nil Increas	2.51	0.00
Maisonette	Nil Increase	Nil Increase	Nil Increase	2.52		0.00
Sheltered Bedsit	2.99					2.99
Sheltered Bungalow	2.82					2.82
Sheltered Flat	Nil Increase	Nil Increase				0.00

Count of property reference	
increase band	Total
nil	439
Less than £1	194
£1-2	1083
2 -3.0	740
3-4.0	457
above 4	235
Grand Total	3148

ADDENDUM REPORT

APPENDIX HO1
(Minutes to be tabled on 3 Feb 10)

Board/Committee:	HOUSING BOARD
Date of Meeting:	3 FEBRUARY 2010
Title:	COUNCIL DWELLING RENTS 2010/11
Author:	FINANCIAL SERVICES MANAGER AND HOUSING SERVICES MANAGER
Status:	FOR RECOMMENDATION TO COUNCIL

Since the report was circulated a typographical error in the recommendation has been noted. Therefore this report sets out the correct recommendation

‘The Board is requested to recommend to Council its requirements for increases from the **5 April 2010** as described below:

1) The average weekly Council Dwelling rents to increase by 3.1%

2) Garage rents to increase by £1 per week plus 3.1%.’

APPENDIX PO2
(Minutes to be tabled on 3 Feb 10)

Board / Committee	**POLICY AND ORGANISATION BOARD**
Date of meeting:	**3rd FEBRUARY 2010**
Title:	**TREASURY MANAGEMENT & PRUDENTIAL INDICATORS 2010-2011**
Author:	**FINANCIAL SERVICES MANAGER**
Status:	**FOR RECOMMENDATION TO COUNCIL**

Purpose

This report outlines the Council's prudential indicators for 2010/11 to 2012/13 together with the expected treasury operations for this period. It fulfils four key legislative requirements by reporting on:

- The main prudential indicators
- The Minimum Revenue Provision (MRP) policy
- The treasury management strategy statement and key indicators
- The investment strategy

Recommendation

The Board is recommended to consider this report and refer it to Council for formal approval of

- The prudential indicators
- The Minimum Revenue Provision (MRP) policy (Appendix A)
- The treasury management strategy
- The investment strategy

The Board and Council note that Officers will be reviewing the provisions relating to Treasury Management in the Constitution and will bring forward any amendments to a future meeting.

1.0 BACKGROUND

The Local Government Act 2003 in conjunction with the CIPFA Prudential Code for Capital Finance requires the Council to consider the affordability of its capital expenditure plans during the annual budget setting process. The Prudential Code operates by the provision of prudential indicators, which summarise the expected capital activity and introduce limits upon that activity, and reflect the outcome of the Council's underlying capital appraisal systems.

The Council's capital activity, as contained within the prudential framework above, will directly impact on treasury management activity principally by influencing cash flows, borrowing and investment. The treasury management strategy is therefore included as a complement to the prudential code indicators to show the full picture.

Treasury management is defined as "The management of the organisation'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".

This prudential and treasury management framework is generally reported twice a year - to January (policy for the year ahead - this report) and in September (actual for the previous year plus year to date).

Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. The CLG is currently consulting on changes to the Investment Guidance. The revised guidance arising from these codes has been incorporated within these reports, with the CLG proposals being incorporated where these do not conflict with current guidance.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2010/11 – 2012/13

Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems.

The overall prudential framework will impact on the Council's treasury management service through borrowing or investment activity. The Treasury Management Strategy for 2010/11 to 2012/13 is included to complement the Prudential Code indicators.

The Capital Expenditure Plans

The capital expenditure plans will be partially financed by external funds such as capital receipts, capital grants, external contributions and deposits. The remaining element which is not able to be immediately financed from these sources will impact on the Council's borrowing need (the Capital Financing Requirement, or CFR). The summary capital expenditure, financing and the impact on the CFR are shown in the tables below.

This borrowing or net financing need is known as unsupported capital expenditure and must be paid for from the Council's own revenue resources through interest and MRP costs.

In order to ensure that scarce revenue resources are focused on key priorities, a robust approach to capital appraisal is adopted in the budget process by taking into account:

- Service objectives (e.g. strategic planning),
- Stewardship of assets (e.g. asset management planning),
- Value for money (e.g. option appraisal),
- Prudence and sustainability (e.g. whole life costing),
- Affordability (e.g. implications for the council tax and rents),
- Practicality (e.g. minimising underspends and slippage).

A key risk of the capital funding plan is that the estimated sources of external funding are subject to confirmation and / or negotiation which may cause changes to the budgeted funding pattern. For instance anticipated asset sales may be postponed due to the impact of the recession on the property market.

The indicators and projections throughout this report and in the Council's budget assume that projected capital receipts will be realised as estimated.

The Council is asked to approve the following capital expenditure projections which are taken from the draft Capital Programme in the 2010/11 Budget.

Capital Programme	**2008/09 Actual £'000**	**2009/10 Revised £'000**	**2010/11 Estimate £'000**	**2011/12 Estimate £'000**	**2012/13 Estimate £'000**
Non - HRA	3,060.1	6,853.6	9,570.5	5,126.0	1,831.0
HRA	3,800.6	2,600.0	2,324.0	2,250.0	2,250.0
Total Capital Expenditure	6,860.7	9,453.6	11,894.5	7,376.0	4,081.0
Financed by:					
Capital receipts	282.5	129.6	558.0	2,058.0	1,558.0
Capital grants	2,449.0	2,783.0	2,064.0	2,440.0	2,440.0
Other contributions	1,502.3	2,443.0	1,642.0	300.0	750.0
Revenue	0.0	0.0	0.0	0.0	0.0
Total Financing	**4,233.8**	**5,355.6**	**4,264.0**	**4,798.0**	**4,748.0**
Net financing need	2,626.9	4,098.0	7,630.5	2,578.0	(667.0)

The Council's Borrowing Need (the Capital Financing Requirement)

The net financing need above will impact directly on the Council's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need for capital purposes. The capital expenditure above which has not immediately been paid for will increase the CFR. The Council is asked to approve the CFR projections below:

Capital Financing Requirement (CFR) at 31st March	2008/09 Actual £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Housing	4,010.3	4,067.3	4,267.3	4,317.3	4,367.3
Non - Housing	4,683.0	8,528.4	15,569.0	17,678.4	16,405.8
Total CFR	**8,693.3**	**12,595.7**	**19,836.3**	**21,995.7**	**20,773.1**
Movement in CFR	**2,314.0**	**3,902.4**	**7,240.6**	**2,159.4**	**(1,222.6)**
Movement in CFR is represented by					
Net financing need for the year	2,626.9	4,098.0	7,630.5	2,578.0	(667.0)
Less MRP/other financing mvmts	(312.9)	(195.6)	(389.9)	(418.6)	(555.6)
Net movement in CFR	**2,314.0**	**3,902.4**	**7,240.6**	**2,159.4**	**(1,222.6)**

Minimum Revenue Provision (MRP)

The Council is required to pay off an element of the unsupported General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP). It is also allowed to undertake additional voluntary payments (VRP). There is currently no corresponding requirement for HRA capital funding repayments.

CLG Regulations have been issued which require full Council to approve an MRP Policy Statement in advance of each year which sets out the basis for the MRP charge. A variety of options are available to councils upon which to do this so long as there is a prudent provision. The Council is recommended to approve the MRP Statement at Appendix A.

The policy contained in this statement has been formulated to minimise the impact of the capital programme on the revenue budget so far as possible.

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators. The following prudential indicators are required to assess the affordability of the capital investment plans by providing an indication of the impact of the capital investment plans on the overall Council finances.

The trend is one of increasing revenue costs which reflect the cost of funding the capital programme and place further pressure on medium term budget projections. The Council is asked to approve the following indicators:

Actual and Estimates of the ratio of financing costs to net revenue stream – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream.

Ratio of financing costs to net revenue stream	2008/09 Actual £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Non - Housing	-2.4%	-0.5%	3.3%	4.0%	4.9%
Housing	0.8%	1.5%	0.8%	0.6%	0.6%

Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator illustrates the trend in the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of Capital Investment decisions on	2010/11 Proposed	2011/12 Projected	2012/13 Projected
Council Tax - Band D	£12.46	£21.01	£22.89

Estimates of the incremental impact of capital investment decisions on Housing Rent levels – Similar to the Council tax calculation this indicator identifies the trend in the cost of the proposed the housing capital programme expressed as a change in weekly rent levels.

Incremental impact of Capital Investment decisions on	2010/11 Proposed	2011/12 Projected	2012/13 Projected
Housing Rent levels	£0.01	£0.02	£0.02

3.0 TREASURY MANAGEMENT STRATEGY 2010/11 – 2012/13

Introduction

The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code.

Whilst the prudential indicators above consider the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework, the treasury management activity covers the effective funding of these decisions. Taken together they form part of the process which ensures the Council meets the requirement of setting a balanced budget.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009).

The revised code requires the formal adoption of specific Treasury Management clauses together with a Treasury Management Policy Statement in the Council's formal business documentation (which includes Standing Orders and Financial Regulations). The recommended CIPFA drafts of these are included at Appendices B and C for information. The Constitution already contains such provisions but officers will undertake a review to ensure that these still satisfy CIPFA's new requirements.

The CIPFA code of practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report will be produced after the year-end to report on actual activity for the year together with the mid-year position.

Treasury management is defined as "The management of the organisation'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".

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and debt strategy
- The Council's investment strategy
- Treasury performance indicators;
- Specific limits on treasury activities;
- Any local treasury issues.

Limits to Borrowing Activity

The Council needs to ensure that net external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and next two financial years. Reductions in the CFR may be ignored. While allowing some flexibility for limited early borrowing for future years, this indicator ensures that over the medium term net borrowing will only be for a capital purpose.

The Council complied with this prudential indicator in the current year and will manage borrowing activity within this parameter in the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Position at 31st March	2008/09 Actual £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Borrowing	11,000.0	15,000.0	18,630.5	21,208.5	20,541.5
Investments	(8,739.0)	(5,000.0)	(3,000.0)	(2,000.0)	(2,000.0)
Net borrowing (investments)	**2,261.0**	**10,000.0**	**15,630.5**	**19,208.5**	**18,541.5**
CFR	**8,693.3**	**12,595.7**	**19,836.3**	**21,995.7**	**20,773.1**

A further two prudential indicators control the overall level of borrowing. These are:

- **The authorised limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements.
- **The operational boundary** –This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

The Council is asked to approve the following authorised and operational limits:

Authorised Limit	2008/09 Actual £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
	13,000.0	22,600.0	26,100.0	27,800.0	26,200.0
Operational Boundary	**2008/09 Actual £'000**	**2009/10 Revised £'000**	**2010/11 Estimate £'000**	**2011/12 Estimate £'000**	**2012/13 Estimate £'000**
	13,000.0	21,600.0	24,800.0	27,000.0	25,800.0

Borrowing in advance of need

Council has some flexibility to borrow funds this year for use in future years. The Borough Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism

Expected Movement in Interest Rates (from Butlers consultants)

Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	0.5	0.8	1.4	3.2	4.4	4.6
2010/11	1.0	1.5	2.3	4.0	5.0	5.2
2011/12	2.0	2.5	3.3	4.3	5.3	5.3
2012/13	4.5	4.8	5.3	5.3	5.5	5.3

* Borrowing Rates

Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, (rate cuts and Quantative Easing {QE}), could trigger a dip back to negative growth and a W-shaped GDP path.

Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.

The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.

The MPC will continue to promote easy credit conditions via quantitative monetary measures. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further in February. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.

With inflation set to remain subdued in the next few years (though a sharp blip is forecast for the next few months), the pressure upon the MPC to hike rates will remain moderate. But some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity price strength filters through) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.

The outlook for long-term fixed interest rates is a lot less favourable. While the UK's fiscal burden should ease in the future, this will be a lengthy process and deficits over the next two to three financial years will require a very heavy programme of gilt issuance. The market will no longer be able to rely upon Quantitative Easing to alleviate this enormous burden.

The programme might well end in February, especially if the economy has returned to a recovery path as seems very likely. With growth back on the agenda and inflation challenging the upper limit of the Government's target range, the majority of MPC members may feel enough assistance has been given to ensure lack of credit is no longer a fundamental threat to the welfare of the economy

The absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper.

This incentive will take the form of higher interest rates. The longer fixed interest rates will suffer from the lack of support from the major savings institutions – pension funds and insurance companies who will continue to favour other investment instruments as a source of value and performance. The shorter fixed interest rates will be pressured higher by the impact of rising money market rates. While bank purchases in this part of the market will continue to feature as these institutions meet regulatory obligations, this process will be insufficiently strong to resist the upward trend in yields.

Borrowing and Debt Strategy 2010/11 – 2012/13

The continuing uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

The Borough Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

- All long-term loans (in excess of 365 days) to be raised through the PWLB, Bond Issue or Loan Receipt (1989 Housing Act).
- All short term loans (less than 365 days) to be raised through dealings on the London Money Markets using
    - Garban Harlow Ueda Limited,

- Tradition UK Limited
- ICAP
- R P Martins
- Other brokers at the discretion of the Borough Treasurer.
- Directly via the Council's bank

In view of the uncertainties and higher risk levels in the money markets, a risk averse policy is being operated that is substantially within the parameters set by Council.

Returns are to be maximised by efficiency rather than risk – primarily by enhanced monitoring of capital fund projects rather than by exposing the Council to the market

The authority to respond to different interest rates throughout the financial year is delegated to the Borough Treasurer. In his absence the Council's response to short term fluctuations is jointly agreed between any two of the Financial Services Manager, the Head of Accountancy, and the Group Accountant. There is a clear segregation of duties between setting up and authorising loans and investments

In 2009/10 to date, the Council has alternated between a net investment and a net borrowing position. This is expected to move to a net borrowing position in line with capital programme projections although the speed and degree of this will depend on the progress with capital schemes, the success in raising capital receipts and the uncertainties of the economic recovery.

Maturing investments will be required to fund the capital programme and the projected need for available cash resources will be balanced against new capital receipts and the availability of low rates of interest for long term loans through the Public Works Loans Board. <u>The robust management of capital budgets and schemes is a prerequisite to forward planning to ensure the availability of cash resources.</u>

Debt restructuring

The Council's long term debt with the Public Works Loans Board (PWLB) at 1st April 2009 was £11 million. Following advice from the Council's treasury management consultants, £8 million of debt was restructured in December 2009 by replacing longer term loans at higher interest rates with shorter term loans at lower interest rates. This provides a twofold benefit of a discount on the loans redeemed and a lower replacement interest rate through borrowing shorter. The total savings accruing to the General Fund in the 2010/11 financial year are £165,780.

The risk of borrowing shorter is mitigated in two ways: firstly, replacement loans will be spread over a number of varying maturities (2-6 years) in order to reduce market exposure in any one year; and, secondly, these lengths of loan coincide with the approximate timescale for raising capital receipts which may mean that the maturing loans do not need immediate replacement. The short term gains are a key element towards aiming for a balanced budget over the next few years.

Investment Strategy 2010/11 – 2012/13

The key objectives of the Council's investment strategy are security, liquidity and yield in that order.

- In order to limit interest rate exposure all investments are to be fixed rate transactions
- No Investments are to exceed 3 years although most will not exceed 364 days
- New investments to be placed with
  - The top three building societies (currently Nationwide, Coventry and Yorkshire)
  - The Council's bank
  - The major British banks and their wholly owned subsidiaries (Royal Bank of Scotland, HSBC, Lloyds/HBOS, Barclays and Co-op)
- Short term surplus funds are to be invested in money market funds or deposit accounts as operated by the Royal Bank of Scotland and the Bank of Scotland. These offer immediate deposit and withdrawal facilities but still at advantageous rates of interest.
- A £3m limit applies with any single group other than the Council's bank
- The main principles governing the Council's investment criteria are the security (as advised by the Council's broker) and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity. Whilst credit ratings may be considered, undue reliance will not be placed on these

There is a clear operational difficulty arising from the current banking situation. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness and interest rates suggests short dated investments may provide lower exposure to risk.

Treasury Management Prudential Indicators and Limits on Activity

There are four treasury activity limits which were previously classified as prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

- Upper limits on variable rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

The Council is asked to approve the limits set out below:

	2010/11		2011/12		2012/13	
Limits on Activity	**Upper**		**Upper**		**Upper**	
	Investments £'000	**Borrowing £'000**	**Investments £'000**	**Borrowing £'000**	**Investments £'000**	**Borrowing £'000**
Limits on fixed interest rates	(8,000.0)	18,600.0	(8,000.0)	21,200.0	(8,000.0)	21,200.0
Limits on variable interest rates	(7,500.0)	5,000.0	(7,500.0)	5,000.0	(7,500.0)	5,000.0
Maturity Structure (limits & actual) of fixed borrowing	**Lower %**	**Upper %**	**Lower %**	**Upper %**	**Lower %**	**Upper %**
Under 12 months	0%	10%	0%	10%	0%	10%
12 months to 2 years	0%	20%	0%	20%	0%	20%
2 years to 5 years	0%	75%	0%	75%	0%	75%
5 years to 10 years	0%	40%	0%	40%	0%	40%
10 years and above	0%	50%	0%	50%	0%	50%
Maximum percentage of principal sums invested for over 364 days	£6m		£5m		£3m	
Compliance with CIPFA Code of Practice on Treasury Management	Yes		Yes		Yes	

It should be noted that the maturity structure has changed in the current year due to the debt restructuring that has taken place and in practice the originally approved limits for 2009/10 may be slightly exceeded depending on any further transactions before the year end.

Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These include number of transactions and average rates achieved for borrowing and investments compared to suitable market comparators. These indicators are reported in the annual Treasury Management report in September.

Treasury Management Advisors

The Council uses Butlers as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues,
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing and debt rescheduling

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. The service is subject to regular review.

Member and Officer Training

The increased member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers.

Officers dealing with treasury management receive training and are this reviewed as part of the annual appraisal process.

An appropriate level of member training will be provided early in the new municipal year.

4.0 CONCLUSION

This report considers the financing of the Council's capital expenditure plans and the impact on the capital financing requirement and borrowing limits. An appropriate Treasury Management Strategy is recommended and Prudential Code indicators are included throughout.

Financial implications:	As contained in the report.
Legal implications:	The formulation of a plan or strategy for the control of the authority's borrowing, investments or capital expenditure is a function reserved for the Council.
Service Improvement Plan implications:	This report is required in order that to fulfil statutory requirements associated with the achievement of both service improvement plan and corporate plan targets.
Corporate Plan	
Risk Assessment	As contained in the report
Background papers:	Budget working papers
Appendices/Enclosures:	Appendix A – MRP Policy Statement Appendix B – Treasury Management Clauses to form part of Standing Orders / Financial Regulations Appendix C - Treasury Management Policy Statement
Author / Lead Officer	John Norman

APPENDIX A

Minimum Revenue Provision (MRP) Policy Statement

Background

1. Local Authorities are required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund revenue account each year for the repayment of General Fund debt – where debt is the extent that capital expenditure has been financed by borrowing.

2. The MRP scheme was set out in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) which has now been substantially amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414). The latter were issued in their final form on 26th February 2008 and came into force on 31st March 2008 which meant that they applied retrospectively from the 2007/08 financial year and for all future years.

3. Until 2007/08, MRP resulted from a prescribed calculation that was specified in legislation while the new regulations gave local authorities more freedom to determine a 'prudent' MRP charge that is in line with a statement of MRP policy that must be approved by full council.

4. The MRP statement for 2010/11 should be submitted to council before the start of the financial year.

Options for MRP

5. The guidance sets out four ready-made options for calculating MRP. These are considered to be the most relevant to the majority of local authorities but other approaches are not ruled out.

   Option 1: Regulatory Method

   The current method, which is calculated as 4% of the council's general fund capital financing requirement at the previous 31st March, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003. This can continue to be used for all capital expenditure incurred prior to 1st April 2008.

   Option 2: CFR Method

   This differs from Option 1 only in that the smoothing factors are removed and it is designed as a simpler calculation.

   For new borrowing under the Prudential system, two options are suggested

Option 3: Asset Life Method

Provision for the repayment of debt is determined by reference to the life of the asset for which the borrowing is undertaken.
This may be accomplished by either:

- o The Equal Instalment Method allows a spread of equal charges over the life of the asset
- o The Annuity Method links MRP with the flow of future benefits. Further guidance on the application of this method practice may follow.

Option 4: Depreciation Method

Provision for the repayment of debt is made in accordance with the standard rules for depreciation accounting

6. Additional voluntary revenue provision may be made under options 3 and 4 in which case there may be an appropriate reduction in later years levels of MRP

7. MRP normally starts in the financial year following the one in which the expenditure was incurred although it may be postponed until the financial year following the one in which the asset becomes operational.

8. Housing Assets continue to be excluded from these arrangements and there is no obligation to make an MRP charge in respect of Housing borrowing

9. Both options 1 and 2 may only be used for capital expenditure incurred before 1st April 2008 and after that date only for supported borrowing

10. For capital expenditure incurred after 1st April 2008 which is not supported, Option 3 or 4 may be applied.

Recommended Policy

For all capital expenditure incurred before 1st April 2008, MRP will be based on the Regulatory Method – an extension of existing policy.

For all capital expenditure incurred after 1st April 2008, MRP will be based on the Asset Life Method except that where capital expenditure is incurred over more than one year then MRP will start in the year following the year in which the asset becomes operational.

MRP will not be charged on capital expenditure for which funding is by capital receipts which will be forthcoming later. This will allow flexibility in maximising capital receipts in term of economic uncertainty without incurring a council tax penalty.

APPENDIX B

Draft Treasury Management Clauses to form part of Standing Orders / Financial Regulations

1 The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities. (The recommended policy statement is at Appendix C)
- Suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

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

3 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the [XXXXXX} , and for the execution and administration of treasury management decisions to the Borough Treasurer, who will act in accordance with the Council's policy statement and treasury management practices (TMPs) and CIPFA's Standard of Professional Practice on Treasury Management.

4 The organisation nominates [XXXXXX] to be responsible for ensuring effective scrutiny of the treasury management strategy and policies

APPENDIX C

Draft Treasury Management Policy Statement

1 This organisation defines its treasury management activities as: ‘The management of the organisation’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’

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

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

A MEETING OF THE POLICY AND ORGANISATION BOARD WAS HELD ON 25 JANUARY 2010

The Mayor (Councillor Mrs Searle) (ex-officio); Councillors Burgess (P), Carter (P), Chegwyn (P), Cully (P), Gill (P), Hicks (P), Hook (Chairman) (P), Langdon (P), Philpott (P) and Wright (P).

PART II

49. ANTI SOCIAL BEHAVIOUR ORDER PROTOCOL

Consideration was given to a report of the Head of Community Safety which set out a proposed protocol to guide how the Council would consider the suitability, or otherwise, of pursuing an application for an Anti Social Behaviour Order and in such cases how such an application would be progressed.

A formal protocol would help to ensure a consistent and fair approach, and a good chance of a successful outcome of any Anti Social Behaviour Order application made to the courts by the Council.

RESOLVED: That the proposed protocol be approved.

50. CRACK HOUSE CLOSURE PROTOCOL

Consideration was given to a report of the Head of Community Safety which set out a clear procedure supported by Partners, showing how Gosport Borough Council would respond to consultations from Hampshire Constabulary for applications to Magistrates Courts for ‘Crack House’ Closure Orders under Part I of The Anti Social Behaviour Act 2003.

RESOLVED: That:

a) the proposed protocol be approved; and

b) authority be delegated to the Chief Executive to certify that the Council has been suitably consulted by Hampshire Constabulary in any proposed ‘Crack House’ Closure application relating to premises in the Borough.

51. ROGERS HOUSE REDEVELOPMENT

Consideration was given to a report of the Housing Services Manager which outlined the progress made in developing plans for the future of Rogers House, Lee on the Solent.

A progress report on the project had last been given to Housing Board in January 2009; however there had been a number of minor changes to the scheme since that time and some unforeseen delays. These proposals were subject to planning approval and to securing funding for the scheme from the Homes and Communities Agency.

Officers undertook to provide a progress report to Members of the Housing Board.

RESOLVED: That:

a) the land and associated buildings at Rogers House be transferred to Guinness Hermitage Housing Association for £1 and on such other terms to be agreed and subject to planning approval; and

b) authority be delegated to the Housing Services Manager, in conjunction with the Borough Solicitor, to finalise the detailed terms of the transfer of the land.

52. CONTRACT PROCUREMENT PROCESS AND TIMETABLE

Consideration was given to a report of the Chief Executive which sought the Board's approval for the procurement process and timetable in respect of Grounds Maintenance, Street Cleansing, Public Toilet Cleansing and Maintenance, Refuse Collection and Housing Services and Council Asset Management contracts on an Open Book Accounting/Partnership arrangement.

RESOLVED: That the process and timetable for the procurement of the services as identified in the report be approved.

53. NEW STORE AT MIDDLECROFT ALLOTMENT

Consideration was given to a cross reference from the Community and Environment Board held on 18 January 2010 which sought approval for the grant of a lease of land to the Allotment Holders Association for the purpose of constructing a new store in the location shown coloured red on Plan 1 attached to the report to that Board.

RESOLVED: That:

a) the grant of a lease of the Council land shown on plan 1 on terms to be agreed by the Council's Head of Property Services be approved; and

b) the Borough Solicitor be authorised to enter into such documentation as is necessary to effect the above decision in consultation with the Head of Property Services.

54. ALVER VALLEY – MANAGEMENT OF FISHING LAKE

Consideration was given to a cross reference from the Community and Environment Board held on 18 January 2010 which advised of the recommended action agreed by the Alver Valley Steering Group in respect of the future management of the Alver Valley fishing lake.

RESOLVED: That:

a) the grant of a lease of the Council land shown on Plan 1 of the report to the Community and Environment Board be approved on terms to be agreed by the Council's Head of Property Services; and

b) the Borough Solicitor be authorised to enter into such documentation as is necessary to effect the above decision in consultation with the Head of Property Services.

The meeting ended at 6.15 p.m.