



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 **SECOND DAY** of **FEBRUARY 2011** at **6.00PM** 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 Ordinary Meeting of the Council held on 24 November 2010 (copy 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, 31 JANUARY 2011 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, 31 JANUARY 2011).

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, 1 FEBRUARY 2011).

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

	BOARD	DATE
(i)	Housing Board	*31 January 2011 (Grey sheets)
(ii)	Policy & Organisation Board	*01 February 2011 (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: 21 December 2010, 4 January and *1 February 2011 (Old Gold sheets)
- Community and Environment Board: *27 January 2011 (Light Green sheets)
- Housing Board: *31 January 2011 (Lavender sheets)

* These minutes are 'To Follow'.

8. Portsmouth & Gosport Joint Board – Member Vacancy

To consider the report of the Borough Solicitor (copy herewith)

9. Election of Mayor and Deputy Mayor 2011/2012

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. One nomination each has been received by the Borough Solicitor, Councillor C R Carter for Mayor-Elect and Councillor R J Dickson for Deputy-Mayor Elect for the 2011/2012 Municipal Year.

**IAN LYCETT
CHIEF EXECUTIVE**

**TOWN HALL
GOSPORT**

25 January 2011

FIRE PRECAUTIONS

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

In the event of the fire alarm 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 2 Feb 11)
Board/Committee:	HOUSING BOARD
Date of Meeting:	31 JANUARY 2011
Title:	COUNCIL DWELLING RENTS 2011/2012
Author:	FINANCIAL SERVICES MANAGER AND HOUSING SERVICES MANAGER
Status:	FOR RECOMMENDATION TO FULL COUNCIL

Purpose

This report considers the Board's revised 2010/2011 budget and the 2011/2012 budget for the Housing Revenue Account and makes recommendations on rent levels for next year.

Recommendations

The Board is requested to recommend to Full Council its requirements for increases from the 4 April 2011 as described below:

- a. The average weekly Council dwelling rents to increase by 7.1%
- b. Garage rents to increase by 7.1%.
- c. Barclay House rent increases for 2011/12 are noted by Members.

1.0 Background

- 1.1 This report considers the revised budget for 2010/2011 and the budget for 2011/2012 for the Housing Revenue Account (Appendix 1).
- 1.2 The report makes recommendations on rent levels for next financial year. A schedule detailing proposed rent levels is attached at (Appendix 2).

2.0 Housing Revenue Account (HRA)

- 2.1 The HRA revised Council house maintenance budget for 2010/2011 is £2,682,340, an increase of £150,000 on the original budget. The Council house maintenance budget for 2011/2012 is £2,879,170 representing a £199,000 increase on the 2010/2011 revised estimate as part of the ongoing strategy to increase the funding for repairs and maintenance to meet the requirements as outlined in the Asset Management Strategy Report presented to Board on 21.1.2009.
- 2.2 It is anticipated that the HRA balance level will increase to approximately £522,000 from the current balance of £358,000 by the end of the financial year 2010/2011. This is still significantly below the target level of approximately £800,000 identified within the Medium Term Financial Strategy but highlights the savings that have been made to costs during the year. The major variances to the original

budget have occurred in the following areas:

- a. The repairs and maintenance budget was increased by £150,000 after early identification of the high probability of an overspend on response repairs was identified in June.
 - b. Management costs have reduced by £140,000 this is primarily due to savings identified during the budget process and cuts across all areas with staffing cost savings being the most significant.
- 2.3 It is anticipated that the HRA balance will increase to approximately £790,000 by the end of 2011/2012. This increase in reserves is due to a number of factors including increased rental income as the Council attempts to get closer to the specified guideline rent before the HRA finance reform comes into effect.
- 2.4 The housing subsidy settlement for 2010/11 for this Council shows a net payment figure from this Council of £3,395,000. This equates to 30% of income received. When depreciation of £1,965,000 is added this becomes 47.5%. The remaining 52.5% is what is available to pay for repairs, staffing and loan repayments. This Council has consistently charged a rent that is lower than the guideline rent or recommended rent set by Government. For 2010/11 the guideline rent was set at £66.09 and the average rent charged by this Council was £62.40, amounting to an average loss of income of £3.69 per property per week. With the recommended rent increase of 7.1% the gap between actual rent and guideline rent will be closer in 2011/12. Guideline rent is set at £69.63 for 2011/12 and this Council's average rent will be £66.89. A 7.1% increase would therefore reduce the gap to £2.74 per property per week. It is essential that the gap between guideline and actual rents is reduced as quickly as possible. When the new HRA finance system is introduced (this is currently forecast for April 2012) the debt level will be based upon the assumed level of income which under rent restructuring is based on the guideline rent.
- 2.5 The draft subsidy settlement for 2011/12 results in a requirement to pay £3,497,308 to the Government, an increase of £102,000 from that payable in the current year. This is more than offset by the proposed rental income increase.

3.0 HRA Capital Programme

- 3.1 The Capital Programme for 2009/2010 to 2014/2015 is shown on page 44 of the draft budget book. The HRA Capital Programme totalling approximately £1,964,000 in the revised budget for 2010/2011 is funded from the Major Repairs Allowance (MRA) £1,914,000 and there is in addition a budget of £50,000 for disabled aids for Local Authority tenants. The Capital Programme for 2011/2012 is £2,643,000.
- 3.2 The expenditure for 2011/2012 of £2,643,000 is to be financed primarily from MRA of £2,324,000 and the remainder will be met from borrowing and a small contribution from the HRA. This is primarily to bring forward work on the garage programme and continue with stock investment which has been identified as being underfunded previously in the Asset Management Strategy Report presented to Board on 21.1.2009.

4.0 HRA Subsidy

- 4.1 There has been a very small increase in the formula for Management and Maintenance allowances in the Notional HRA. The increase is £111,000 or 2.0%. The allowance will increase from £5,493,220 to £5,603,978.
- 4.2 The MRA has increased from £703 per property in 2010/2011 to £721 in 2011/2012, an increase of 2.5%. The MRA provides the Council with the resources to maintain the condition of its housing stock over the long term and is the major source of capital funding.
- 4.3 There are further changes in the methodology for calculating formula rents.
- 4.4 The proposed date for rent convergence has been moved again, with the current target being moved from 2013/2014 to 2015/2016. This has been done to enable the guideline rent to be increased by only 6.8% and to allow the existing social rents policy to be continued when housing finance reform begins in April 2012. 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). This results in lost revenue to this Council's HRA. The Government assumes this Council will be charging close to guideline rent see 2.4 above. With the likelihood of the Government's offer on HRA subsidy reform (as discussed at the October 2009 extraordinary Housing Board) now likely to be detailed late in January/February 2011, this is likely to be the very last subsidy determination.

5.0 2011/2012 Rent Level Proposals

Council House Rents

- 5.1 Actual rents will have to increase by £4.49 (7.1%) on average in order for this Council to enable this Council to be in a more sustainable position in relation to rent levels with the expected HRA reform.

Barclay House Rents

- 5.2 The November 2009 Housing Board approved that Barclay House homeless persons hostel rents should be set at the cost of operating the scheme. A review of those costs has been undertaken and with a view to moving closer to the objective of recovering all the Council's costs, Barclay House rent increase would be set at £30.00 for the financial year 2011/12.

Service Charges

- 5.3 The criteria for the charging of services to tenants has been discussed at previous Housing Boards and this authority separated them from the rental charge in 2004 as recommended by Central Government as part of the rent restructuring process. This was to make the charges to

tenants more transparent as these costs had historically been included as part of the overall rent charge.

The criteria for charging of services to tenants is that:

'the charges applied should be eligible for Housing Benefit i.e. it is an appropriate charge and related to the property and is less than or equal to providing the cost of the service.'

Charges are currently applied for grounds maintenance, Estate Warden services, resident participation and communal heating and lighting, upkeep of play areas and in some instances for communal TV aerials.

These costs are reviewed annually and an increase in charges this year is to reflect the increased cost of providing these services. The increased charge for providing this service has been calculated at £0.49 per tenant per week. The average service charge will increase to approximately £2.80 as a consequence of this increase.

Garage/Car Parking Space Rents

- 5.4 It is proposed to increase rent levels for garages, by 7.1% in line with the proposed increase for dwellings. The proposal for parking spaces is that they also 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 housing finance system it is essential that the rent increase for this year brings this Council closer to the guideline rent level set by the Government.

- 6.2 The guideline rent figure will be used in ascertaining the level of income the Government assumes this Council receives when deciding on the level of debt that will have to be taken on as part of the housing finance reform. 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 a sustainable HRA business plan to be achieved and for the investment in the housing stock to be funded. Previous reports have outlined the requirement for increased investment in this area. As part of the proposed changes to the Housing Finance System a fully financed asset management plan will be a statutory requirement.

7.0 HRA Balance Levels

- 7.1 The Medium Term Financial Strategy currently states that the Council should move towards a target figure of approximately £800,000 (based on £250 per property). The anticipated balance mentioned in 2.3 above is below this level and to ensure that it does not fall further it is strongly recommended 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 7.1%.

9.0 Comparisons with the Private Sector

9.1 The Local Government and Housing Act 1989 requires local housing Authorities to 'have regard in particular to the principle that the rents of houses of any class or description should bear broadly the same proportion to private sector rents as the rents of houses of any other class or description'. These are described in Appendix 3. The Government's policy for social rents is that they are fair, affordable and less confusing for tenants was set out in the December 2000 Policy Statement, "The way forward for Housing". Further details were given in "A Guide to Social Rent Reforms" which was issued at the same time.

10.0 Conclusions

10.1 The date for HRA financial reform has been set for 1 April 2012 and the proposed rent increase of 7.1% is seen as essential to enable a sustainable HRA business plan. Whilst assessing the debt levels that individual Authorities will be required to take on the Government has assumed that income levels will be at least at the scheduled guideline rent level in order for the plan to balance. It is therefore crucial that the existing gap between guideline rents and actual rents is narrowed and that the rent increase of 7.1% is approved.

10.2 This Council agreed to the implementation of Rent Restructuring for 2003/2004. In order for rent convergence targets to be maintained and the continuation of an effective service for the tenants of Gosport it is strongly recommended that the proposed average rental increase of 7.1% is approved.

Financial Implications:	As set out in the report
Legal Implications:	The Council is under a duty to set a budget which prevents a debit balance arising on the Housing Revenue Account.
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 1, 2 and 3.
Report Author/Lead Officer	Tim Hoskins and Julian Bowcher

COUNCIL HOUSING

	ORIGINAL 2010/2011 £000	REVISED 2010/2011 £000	BUDGET 2011/2012 £000
HOUSING REVENUE ACCOUNT			
Income			
Dwelling Rents	10,641	10,636	11,405
Shops & Garages	294	269	262
Service Charges	395	364	343
	<u>11,330</u>	<u>11,269</u>	<u>12,010</u>
Expenditure			
Management	3,015	2,886	2,877
Maintenance	2,532	2,680	2,879
Rents, Rates, Taxes, Other Charges	45	45	45
Depreciation	1,965	1,965	2,323
HRA Subsidy	3,395	3,395	3,497
	<u>10,952</u>	<u>10,971</u>	<u>11,621</u>
	<u>(378)</u>	<u>(298)</u>	<u>(389)</u>
Net Cost Of Services			
Financing Adjustment			
Item 8 Debit	132	154	130
HRA Investment Income / Mortgage Interest	(20)	(20)	(9)
	<u>112</u>	<u>134</u>	<u>121</u>
	<u>(266)</u>	<u>(164)</u>	<u>(268)</u>
Net Operating Expenditure			
Housing Revenue Account Balance			
Surplus at beginning of Year	383	358	522
Surplus / (-) Deficit for Year	266	164	268
Surplus at end of Year	649	522	790

Comparison of 2011-12 Average Net Rent to 2010-11 Level

TYPE	bedroom	2010-11 Average Net Rent @48 weeks	2011-12 Average Net Rent @48 Weeks	Average increase per property type @ 48 weeks
Bedsit	1	47.48	51.99	£4.51
Bungalow	1	62.54	67.92	£5.38
Bungalow	2	71.32	76.20	£4.88
Bungalow	3	79.79	84.37	£4.58
Flat	1	58.60	62.58	£3.98
Flat	2	70.17	74.44	£4.28
Flat	3	75.20	78.35	£3.15
House	1	64.33	68.37	£4.04
House	2	70.81	76.61	£5.80
House	3	78.57	83.95	£5.38
House	4	84.88	90.52	£5.64
House	5	83.33	88.50	£5.17
Maisonette	1	63.70	66.43	£2.74
Maisonette	2	68.76	73.88	£5.12
Maisonette	3	70.74	76.21	£5.47
Maisonette	4	83.96	87.41	£3.44
Sheltered Bedsit	1	48.24	51.86	£3.62
Sheltered Bungalow	1	60.07	64.58	£4.51
Sheltered Flat	1	53.01	56.06	£3.05
Sheltered Flat	2	68.66	71.11	£2.45
Grand Total		67.70	72.49	£4.79

TYPE	bedroom	2010-11 Average Net Rent @52 weeks	2011-11 Average Net Rent @52 Weeks	Average increase per property type @ 52 weeks
Bedsit	1	43.83	47.99	£4.16
Bungalow	1	57.72	62.69	£4.97
Bungalow	2	65.83	70.34	£4.50
Bungalow	3	73.65	77.88	£4.22
Flat	1	54.10	57.77	£3.67
Flat	2	64.77	68.72	£3.95
Flat	3	69.41	72.32	£2.91
House	1	59.38	63.11	£3.73
House	2	65.36	70.72	£5.35
House	3	72.53	77.49	£4.96
House	4	78.35	83.56	£5.21
House	5	76.92	81.69	£4.77
Maisonette	1	58.80	61.32	£2.53
Maisonette	2	63.47	68.19	£4.73
Maisonette	3	65.30	70.35	£5.05
Maisonette	4	77.51	80.68	£3.18
Sheltered Bedsit	1	44.53	47.87	£3.34
Sheltered Bungalow	1	55.45	59.61	£4.16
Sheltered Flat	1	48.93	51.74	£2.81
Sheltered Flat	2	63.38	65.64	£2.26

Grand Total		62.49	66.91	£4.42
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Comparison 2011-12 Average Gross Rent (including service charge)to 2010-11 Level

TYPE	bedroom	2010-11 Average Gross Rent @48 weeks	2011-12 Average Gross Rent @48 weeks	Variance in Number format @48 weeks
Bedsit	1	50.34	55.34	£5.00
Bungalow	1	63.98	69.86	£5.87
Bungalow	2	72.81	78.18	£5.37
Bungalow	3	81.23	86.30	£5.07
Flat	1	61.99	66.46	£4.47
Flat	2	75.36	80.13	£4.77
Flat	3	79.44	83.08	£3.64
House	1	65.77	70.30	£4.53
House	2	72.25	78.54	£6.29
House	3	80.02	85.89	£5.87
House	4	86.32	92.45	£6.13
House	5	84.77	90.43	£5.66
Maisonette	1	69.11	72.33	£3.23
Maisonette	2	72.63	78.24	£5.61
Maisonette	3	74.69	80.65	£5.96
Maisonette	4	89.31	93.25	£3.93
Sheltered Bedsit	1	51.89	56.00	£4.11
Sheltered Bungalow	1	62.64	67.64	£5.00
Sheltered Flat	1	60.25	63.78	£3.54
Sheltered Flat	2	74.63	77.57	£2.94
Grand Total		70.28	75.56	£5.28

TYPE	bedroom	2010-11 Average Gross Rent @52 weeks	2011-11 Average Gross Rent @52 Weeks	Variance in Number format @52 weeks
Bedsit	1	46.47	51.09	£4.62
Bungalow	1	59.06	64.48	£5.42
Bungalow	2	67.21	72.17	£4.96
Bungalow	3	74.98	79.66	£4.68
Flat	1	57.22	61.35	£4.12
Flat	2	69.57	73.97	£4.40
Flat	3	73.33	76.69	£3.36
House	1	60.71	64.89	£4.18
House	2	66.70	72.50	£5.81
House	3	73.87	79.28	£5.42
House	4	79.68	85.34	£5.66
House	5	78.25	83.47	£5.22
Maisonette	1	63.79	66.77	£2.98
Maisonette	2	67.04	72.22	£5.18
Maisonette	3	68.94	74.45	£5.50
Maisonette	4	82.44	86.07	£3.63
Sheltered Bedsit	1	47.90	51.69	£3.79
Sheltered Bungalow	1	57.82	62.44	£4.61
Sheltered Flat	1	55.61	58.88	£3.26
Sheltered Flat	2	68.89	71.60	£2.72
Grand Total		64.87	69.75	£4.87

Gross has absorbed £0.49 increase of service charge

The Following Data was taken from the Rightmove website during the first week of November 2010

There are twelve agents that advertise Gosport properties for rent on Rightmove and four that advertise for Lee-on -Solent properties.

It is considered that with this number of agents,the data derived from Rightmove can be relied upon as reliable and a good indicator of the sector as a whole in Gosport and Lee-on-Solent.

Property size/type	Location	High/Low Rents (£'s)	Nos available	Average weekly rent 52 wks(£'s)
1 bed flat	Gosport	110-156	22	120
	L-O-S	110-137	4	122
2 bed flat	Gosport	114-230	55	144
	L-O-S	144-160	5	150
3 bed flat	Gosport	121	1	121
1 bed house	Gosport	114-121	3	117
2 bed house	Gosport	115-160	22	144
	L-O-S	150	1	150
3 bed house	Gosport	150-196	12	173
	L-O-S	196-219	3	212
4 bed house	Gosport	185-381	7	232
	L-O-S	680	1	680

GOSPORT BOROUGH COUNCIL

BOARD/COMMITTEE:	POLICY & ORGANISATION BOARD
DATE OF MEETING:	1 FEBRUARY 2011
TITLE:	COUNCIL BUDGET 2011/12
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 2011/12 including Exchequer support and reserve levels, recommends a budget level for that year. **The proposed budget will 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 and recommend to Council a revised 2010/11 budget totalling £12,844,100 and a budget for 2011/12 totalling £10,691,430.

1.0 PURPOSE OF REPORT

- 1.1 To recommend budget levels for General Fund services for 2011/12 and help determine, in due course, the level of Council Tax to be levied in the Borough. (The Council Tax level for 2011/12 will be set by Council on 28 February 2011 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 changes to the budget or reserves may 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 had a severe effect on public services generally, impacting adversely on income streams (which have still not recovered) and increasing demand for services.
- 2.2 In order to rebalance the economy the new coalition Government has set about making substantial reductions in public sector expenditure. Exchequer funding levels for 2011/12 have been considerably reduced and dramatic changes in grant entitlement have resulted, initially cushioned by complex damping arrangements.
- 2.3 Several other sources of Government grant funding have been withdrawn including Housing and Planning Development Grant, LPSA2 and Area Based Grants, which were together worth over £750,000 to Gosport in 2009/10.
- 2.4 Concessionary Travel responsibilities will transfer to upper tier authorities from 2011/12 and the full cost of the service previously provided by Gosport has been taken away via the grant mechanism, including discretionary elements.
- 2.5 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. However, as a positive incentive, an additional “Council Tax Freeze” grant equivalent to 2.5% Council Tax is to be made available to Councils for a 4-year period, conditional on their tax levels not being increased in 2011/12.

3.0 THE LOCAL FINANCIAL SITUATION

- 3.1 The financial outlook for Gosport has been extremely challenging for several years. Balanced budgets have been produced by making efficiency savings, increasing fees and charges and pushing back forecast commitments. The national issues outlined in section 2 of this report have a direct effect on the Council’s finances and go well beyond what can be met using traditional responses and require fundamental changes to the underlying levels of expenditure and income.
- 3.2 The Council have already reviewed fees and charges ahead of the main budget process in order to maximise the revenue benefits. Reductions in staffing levels are also being implemented during both 2010/11 and 2011/12, using reserves to fund some of the severance costs on a spend-to-save basis.
- 3.3 The provisional Revenue Support (Exchequer) Grant for 2011/12 of £5,134,841 is £2,161,611 lower than the current year, a 29.6% cash reduction but nearer 11.9% if the changed responsibilities for Concessionary Travel are taken in to account. The provisional settlement also indicates a further reduction to £4,760,767 in 2012/13 and no firm information is available for 2013/14 and beyond. Within these figures Gosport is providing almost £1M in 2011/12 and £0.75M in 2012/13 towards the damping mechanism which protects other authorities against extreme grant losses. Council Tax Freeze grant of £140,000 will also be paid to Gosport for the next 4 years if the Council

is then able to avoid any increase in its Council Tax in 2011/12. The final grant settlement figures should be available by early February and it is intended that any variation should be dealt with initially by adjusting the contribution to reserves.

- 3.4 Conclusions about the adequacy of the Council's proposed budget are based on a risk assessment (Appendix 1). 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.
- 3.5 The further reduction in Exchequer grant announced for 2012/13 and the uncertainty beyond have been considered in framing the 2011/12 budget and some of the essential measures being taken to reduce the Council's underlying budget requirement will deliver increased benefits after 2011/12, reducing the scale and cost of measures that may need to be taken in 2012/13.

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 vary the General Fund working balance and provision for reserves is therefore made in the 2011/12 budget as follows: General Fund Working Balance will remain at £890,000 and Revenue Financing Reserve (RFR) is budgeted to start the year at £494,780. Whilst the Working Balance will not change in cash terms, it will represent 8.3% of the Council's net General Fund budget and immediate risks have reduced compared to previous years. The RFR will provide £40,000 in 2011/12 to make good the Council's share of a deficit on the Council Tax Collection Fund and is likely to reduce further as spend-to-save initiatives are undertaken during the next twelve months.

5.0 THE PROPOSED BUDGET

5.1 REVENUE

- 5.1.1 The revised 2010/11 budget totals £12,844,100 - 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. The main variations are additional costs in respect of Administration Recharges impacting on

General Fund £458,000 (largely one-off severance costs funded from the RFR contribution below), Homelessness £74,000, Government grants/subsidies £421,000, Grounds Maintenance contract inflation £40,000 and Land Charges income £31,000, offset by Grants brought forward -£344,000, RFR contribution -£570,000 and additional Recycling income -£47,000.

5.1.2 The total proposed net budget for 2011/12 is £10,691,430 and represents a decrease of £2,152,670 (16.8%) on the original budget for the current year when transfers to and from reserves are included. After discounting the transfer of Concessionary Travel responsibilities to the County Council (£1.214M net) the main variations affecting the 2011/12 budget are Government grants/subsidies £337,000, reduced use of Revenue Financing Reserve £110,000 and Homelessness £66,000 offset by reduced expenditure on Administration Recharges -£544,000 (reflecting reducing staffing levels), Elections -£62,000, -£300,000 on major contracts, special maintenance -£97,000 and -£311,000 additional income from Parking charges, Recycling and the Ferry Landing Stage. There have also been reductions to some services which are detailed in the Board budget reports.

5.1.3 Significant savings and efficiencies have been incorporated in to the 2011/12 budget in accordance with the approved budget strategy. Specifically, staffing reviews and reduced administration and support service costs have reduced the required budget by almost £800,000 and the full year effect of these changes in 2012/13 will be even higher, reducing the scale of the expected budget shortfall in future years.

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 2015/16 amounts to over £37M 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 also a concern. 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 £10,691,430 for 2011/12 will result in no change in Gosport's share of the Council Tax when that is set on 28 February 2011 and is net of a special (4-year) Exchequer grant equivalent to a 2.5% tax increase. The Band D tax will therefore remain at £202.81 for 2011/12.

- 5.4 Based on provisional data, 1% Council Tax produces approximately £55,870 income in 2011/12. Any increase above the proposed budget required to be met from Council Tax will result in the loss of the Council Tax Freeze grant of approximately £140,000 i.e. £200,000 extra tax producing a net £60,000 income.

6.0 BEYOND 2011/12

- 6.1 A 4-year projection of revenue commitments (Appendix 2) indicates further pressures on budgets. A significant proportion of the projected increases relates to 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 %
2012/13	10,878	1.75	8.45
2013/14	11,180	2.78	4.52
2014/15	11,414	2.09	6.79
2015/16	11,734	2.81	5.22

- 6.3 It is essential that a substantial reduction is made in these commitments in the short term (1-2 years) as it is currently Council policy to restrict Council Tax increases for its own requirements to no more than 2.5%. In practice this means that the 2012/13 General Fund budget total will probably need to be lower than the 2011/12 figure.

- 6.4 Whilst the figures projected in paragraph 6.2 represent the best projection that can currently be made, there is a lot of uncertainty regarding future levels of Exchequer support, inflation and interest rates. The most optimistic current forecast beyond 2012/13 is that further cuts may not be necessary in order to work within Council Tax rises of 2.5%p.a., whilst the worst scenario is for ongoing annual budget cuts of between £240,000 and £570,000 being required.

7.0 CONCLUSION

- 7.1 The proposed 2011/12 budget of £10,691,430 is balanced and will result in no change in the level of Council Tax required for the Borough Council's purposes. The outlook for 2012/13 and beyond is further upward pressure on budgets and the Council's Budget Strategy for 2012/13 will address this when it is considered during summer 2011.

- 7.2 A budget book containing the budget as finally approved will be circulated by April and a revised Medium Term Strategy will be prepared shortly thereafter.

Financial Implications:	Council's General Fund Budget, Capital Programme and Council Tax level for 2011/12.
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

BUDGET RISK ASSESSMENT (GENERAL FUND)

Budget Area	Risk	Budget £'000	Likelihood	Revenue Impact	Comment
Capital Programme	Failure to raise necessary financing	N/A	H	M/H	Economic climate may not facilitate the raising of the new capital receipts required in future years
Homelessness	Additional demand.	1,775	H	M	
Inflation	Exceeds allowance.	78	H	M	Inflation is currently rising above budgeted levels.
Maintenance	Inadequate provision.	260	H	M	Essential expenditure has been provided for.
General Income	Shortfall due to unpredicted demand changes.	-2,398	M	H	Budget reflects prudent income forecasts.
Government Grants	Data/Formula review/Policy change	-5,500	M	H	Substantial changes experienced since 2009/10
Housing Benefits	Overpayment rates &/or demand increase, grant formula change.	31,421	M	H	
Land Charges Income	Recession/policy change.	-133	M	M	
Insurance	Claims experience deteriorates.	164	M	M	
Interest Rates	Changes from forecast or capital receipts & deposits get spent earlier than anticipated.	404	M	M	The economic climate & the need to fund major projects increase vulnerability to risk.
Savings & efficiencies	Target cannot be achieved.	-240	L	M	Budgeted provision is considered achievable

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 2015/16 (AT CURRENT PRICES)

	(£'000)			
	2012/13	2013/14	2014/15	2015/16
A 2011/12 Base Budget	10691	10691	10691	10691
B Revenue Increases				
Local Elections	53		53	
Tax freeze grant				140
HB Subsidy	70	70	70	70
Other	5	10	15	20
	128	80	138	230
C Additional Financing Charges *	69	289	315	343
D (A+B+C)	10888	11060	11144	11264
E Less Revenue Decreases				
New Homes grant	100	200	300	400
Leisure Centre running costs	60	80	80	80
Priddy's Hard	50	50	50	50
	210	330	430	530
F PROJECTED BUDGET TOTALS (D-E)	10678	10730	10714	10734

*Arising from the Capital Programme and accounting requirements

APPENDIX PO2
(Minutes to be tabled on 2 Feb 11)

Board / Committee	POLICY AND ORGANISATION BOARD
Date of meeting:	1 FEBRUARY 2011
Title:	TREASURY MANAGEMENT & PRUDENTIAL INDICATORS 2011/12
Author:	FINANCIAL SERVICES MANAGER
Status:	FOR RECOMMENDATION TO COUNCIL

Purpose

This report outlines the Council's prudential indicators for 2011/12 to 2013/14, 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

Recommendations

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

1.0 BACKGROUND

Prudential Indicators

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, introduce limits upon that activity and reflect the outcome of the Council's underlying capital appraisal systems.

The Council's capital activity 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".

The Council is guided by the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code both last published in November 2009. The treasury management and prudential code framework is generally reported twice a year – in January / February (policy for the year ahead – this report) and in September (actual for the previous year plus year to date).

2.5 The Capital Prudential Indicators 2011/12 to 2013/14

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 2011/12 to 2013/14 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 charges.

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, value engineering),

- 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. ie 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 2011/12 Budget.

Capital Programme	2009/10 Actual £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Non - HRA	3,313.7	9,047.0	7,720.0	2,495.0	1,400.0
HRA	2,663.0	1,964.0	2,643.0	2,893.0	2,250.0
Total Capital Expenditure	5,976.7	11,011.0	10,363.0	5,388.0	3,650.0
Financed by:					
Capital receipts	623.1	360.0	650.0	650.0	650.0
Capital grants	2,783.0	2,094.0	2,440.0	2,440.0	2,440.0
Other contributions	782.4	1,848.0	990.0	645.0	640.0
Revenue	0.0	0.0	0.0	0.0	0.0
Total Financing	4,188.5	4,302.0	4,080.0	3,735.0	3,730.0
Net financing need	1,788.2	6,709.0	6,283.0	1,653.0	(80.0)

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	2009/10 Actual £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Housing	4,130.3	4,270.3	4,713.3	5,406.3	5,456.3
Non - Housing	6,221.5	12,491.3	17,988.7	18,597.4	17,925.7
Total CFR	10,351.8	16,761.6	22,702.0	24,003.7	23,382.0
Movement in CFR	1,658.5	6,409.8	5,940.4	1,301.7	(621.7)
Movement in CFR is represented by					
Net financing need for the year	1,788.2	6,709.0	6,283.0	1,653.0	(80.0)
Less MRP/other financing mvmts	(129.7)	(299.2)	(342.6)	(351.3)	(541.7)
Net movement in CFR	1,658.5	6,409.8	5,940.4	1,301.7	(621.7)

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

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:

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	2009/10 Actual £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Non - Housing	-0.3%	3.2%	4.4%	4.6%	6.4%
Housing	1.4%	1.3%	1.0%	1.0%	1.0%

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. 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	2011/12 Proposed	2012/13 Projected	2013/14 Projected
Council Tax - Band D	£3.22	£3.37	£10.49

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 housing capital programme expressed as a change in weekly rent levels.

Incremental impact of Capital Investment decisions on	2011/12 Proposed	2012/13 Projected	2013/14 Projected
Housing Rent levels	£0.01	£0.11	£0.20

TREASURY MANAGEMENT STRATEGY 2011/12 – 2013/14

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 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.

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 2011/12 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	2009/10 Actual £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Borrowing	15,000.0	17,000.0	17,000.0	18,653.0	18,573.0
Investments	(5,287.0)	(4,000.0)	0.0	0.0	0.0
Net borrowing (investments)	9,713.0	13,000.0	17,000.0	18,653.0	18,573.0
CFR	10,351.8	16,761.6	22,702.0	24,003.7	23,382.0

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.

Authorised Limit	2009/10 Actual £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
	15,000.0	23,000.0	29,000.0	30,000.0	29,000.0
Operational Boundary	2009/10 Actual £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
	15,000.0	22,000.0	28,000.0	29,000.0	28,000.0

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 meaning 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.

Expected Movement in Interest Rates

The following commentary has been substantially derived from the Council's treasury management advisors.

Short-term rates are expected to remain low for a considerable time. The recovery in the economy has commenced and recent growth data has come in at the high side of expectations. Nevertheless, this higher rate is unlikely to be sustained, with growth expected to revert back to more neutral levels. The danger of a double-dip recession is fading but the crisis in the euro-zone, the prospects of tight economic policies at home and fragile consumer confidence means the threat has still not evaporated completely.

The void left by significant cuts in public spending will have to be filled by a number of alternatives – corporate investment, rising exports and consumers' expenditure. In terms of sheer magnitude, the latter is the most important and a strong recovery in this area is by no means certain. The combination of the desire to reduce the level of personal debt and continued job uncertainty is likely to weigh heavily upon spending. This will be amplified by fiscal policy tightening, outlined in the Budget and expanded upon in the 20 October Comprehensive Spending Review. Without a rebound in personal spending, any recovery in the economy is set to be weak and protracted.

Inflation performance remains a key risk to the future course of interest rates. Nevertheless, the perceived need to counter the fiscal squeeze via accommodative monetary policy suggests that barring a deterioration from the current situation, the MPC will be prepared to hold rates at very low levels until the latter stages of 2011. The outlook for long-term interest rates is favourable in the near term but is set to deteriorate in the latter part of 2011.

Interest Rate Forecast 2010/2012

Year	End Period	Bank Rate	Money Rates			PWLB Rates			
			3mth	6mth	12-mth	5 yr	10 yr	25 yr	50 yr
2010	Mar	0.50	0.6	0.9	1.3	3.1	4.2	4.7	4.7
	Jun	0.50	0.7	1.0	1.5	2.5	3.5	4.3	4.3
	Sep	0.50	0.7	1.0	1.5	2.0	3.1	4.0	4
	Dec	0.50	0.7	1.0	1.5	3.0	4.1	5.0	5.1
2011	Mar	0.50	0.7	1.0	1.5	3.0	4.1	5.1	5.2
	Jun	0.50	0.7	1.0	1.5	3.1	4.1	5.2	5.3
	Sep	0.50	0.8	1.1	1.6	3.2	4.2	5.3	5.4
	Dec	0.75	1.0	1.2	1.8	3.3	4.3	5.3	5.4
2012	Mar	1.00	1.3	1.5	2.1	3.5	4.4	5.4	5.5

Medium – Term Rate Estimates

Annual Average %	Bank Rate	Money Rates		PWLB Rates			
		3 month	1 year	5 year	10 year	25 year	50 year
2010/11	0.5	0.7	1.5	2.6	3.7	4.6	4.7
2011/12	0.7	1	1.8	3.3	4.3	5.3	5.4
2012/13	1.7	2	2.8	4.2	4.8	5.5	5.6
2013/14	3.1	3.2	3.7	4.8	5.3	5.6	5.7
2014/15	4.0	4.2	4.5	5.6	5.6	5.6	5.8
2015/16	4.0	4.2	4.2	5.3	5.4	5.5	5.5

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 Interest Rate Forecasts above.

All long-term loans (in excess of 365 days) to be raised through the PWLB, Bond Issue or Loan Receipt (1989 Housing Act) and variable rate loans may be considered. There may also be opportunities to borrow from other public bodies.

All short term money market loans (less than 365 days) will be raised through dealings using brokers at the discretion of the Borough Treasurer, including

- Garban Harlow Ueda Limited,
- Tradition UK Limited
- ICAP
- R P Martins

Further funds may be raised directly (ie from other public bodies) without using intermediary brokers or 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 2010/11 to date, the Council is now in a net borrowing position.

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. The robust management of capital budgets and schemes is a prerequisite to forward planning to ensure the availability and effective use of cash resources.

Investment Strategy 2011/12 to 2013/14

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 other than short term surplus funds 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 – NatWest (part of the RBS Group)
- 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.

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	Borrowing	Investments	Borrowing	Investments	Borrowing	
	£'000	£'000	£'000	£'000	£'000	£'000	
Limits on fixed interest rates	(11,000.0)	28,000.0	(11,000.0)	29,000.0	(11,000.0)	28,000.0	
Limits on variable interest rates	(10,000.0)	5,000.0	(10,000.0)	5,000.0	(10,000.0)	5,000.0	
Maturity Structure (limits & actual) of fixed borrowing	Lower %	Upper %	Lower %	Upper %	Lower %	Upper %	
	Under 12 months	0%	6%	0%	12%	0%	13%
	12 months to 2 years	0%	24%	0%	12%	0%	13%
	2 years to 5 years	0%	29%	0%	29%	0%	19%
	5 years to 10 years	0%	18%	0%	18%	0%	19%
	10 years and above	0%	24%	0%	29%	0%	38%
Maximum percentage of principal sums invested for over 364 days	0%	100%	100%				
Compliance with CIPFA Code of Practice on Treasury Management	Yes	Yes	Yes				

Performance Indicators

The Code of Practice on Treasury Management (TMP 6 – Nov 2009) 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 has, in recent years, been using Butlers as its treasury management consultants. In October 2010, Butlers was acquired by “Sector” another Treasury Management Consultancy that is part of the Capita Group.

Sector will continue to offer the same range of services that Butlers were offering.

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 will be reviewed during the next 12 months.

Financial implications:	As contained in the report.
Legal Implications:	It is a legal requirement that an annual Treasury Management report is considered by a representative body of 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 I the report
Background papers:	
Appendices/Enclosures:	Appendix A – MRP Policy

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 to which capital expenditure has been financed by borrowing.
2. The MRP scheme is set out in SI 2003/3146 (Capital Finance and Accounting Regulations) as amended by SI 2008/414. Authorities are required to determine a 'prudent' MRP charge as set out in an MRP policy statement that must be approved by full council before the start of the financial year.

Options for MRP

3. 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

4. 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
5. 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.
6. Housing Assets continue to be excluded from these arrangements and there is no obligation to make an MRP charge in respect of Housing borrowing
7. 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. For capital expenditure incurred after 1st April 2008 which is not supported, Option 3 or 4 may be applied.
8. In the case of finance leases the MRP requirement may be regarded as being met by an amount equal to the element of the rent/charge that goes to write down the balance sheet asset/liability. Thus, Option 3 will apply in a modified form.

Policy

- **For all capital expenditure incurred before 1st April 2008, MRP will be based on the Regulatory Method, an extension of the then 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 to be raised in a later year. This will allow flexibility in maximising capital receipts in terms of economic uncertainty without incurring a council tax penalty.**
- **For finance leases the MRP requirement is regarded as being met by the amount of the rent/charge that goes to write down the balance sheet asset/liability.**

AN EXTRAORDINARY MEETING OF THE POLICY AND ORGANISATION BOARD WAS HELD ON 21 DECEMBER 2010

The Mayor (Councillor Allen) (ex-officio) (P); Councillors Beavis (P), Burgess (P), Carter, C R (P), Chegwyn (P), Mrs Forder (P), Hook (Chairman) (P), Lane (P), Langdon (P), Philpott (P) and Wright (P).

PART II

60. EXCLUSION OF THE PUBLIC

RESOLVED: That in relation to the following item the public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the report.

61. MAJOR CONTRACT PROCUREMENT CONTRACTOR EVALUATION

Consideration was given to a joint exempt report of the Head of Operational Services & Head of Streetscene which informed Members of the outcome of the contractor evaluation process in the procurement of the Councils major contracts.

The report was exempt from publication as it included information relating to the financial or business affairs of third party companies/bidders and therefore the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Members were informed of the recommendations made by the Major Contracts Sub-Board at its meeting earlier in the afternoon.

Members were also informed that Lot 2 would not be ready for consideration as late information for the Lot would require detailed analysis before finally being presented to the Board. Therefore a meeting to consider Lot 2 would be arranged in the New Year.

When the contracts for the Lots, with exception of Lot 2 and as detailed in the Sub-Board's recommendations, were put to the vote, Councillors Chegwyn and Wright abstained from the voting on Lot 3.

RESOLVED: That the Major Contracts Sub-Board's recommendations be approved in the following terms:

- a) to award the following contracts to the contractors detailed below:
- Lot 1 (Asset Management Services) – contractor detailed on page 5 of Appendix 6
 - Lot 2 (Environmental & Streetscene Services) – deferred
 - Lot 3 (Grounds Maintenance) – contractor detailed on page 5 of Appendix 6
 - Lot 4 (Gas Servicing Installation & Electrical Works) – contractor detailed on page 5 of Appendix 6; and
- b) the award of Lot 2 to a preferred contractor be deferred to a meeting of the Policy and Organisation Board to be arranged in the New Year .

The meeting ended at 5.05 pm

AN EXTRAORDINARY MEETING OF THE POLICY AND ORGANISATION BOARD WAS HELD ON 4 JANUARY 2011

The Mayor (Councillor Allen) (ex-officio); Councillors Beavis (P), Burgess (P), Carter, C R (P), Chegwyn (P), Mrs Forder (P), Hook (Chairman) (P), Lane, Langdon (P), Philpott (P) and Wright (P).

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

PART II

66. EXCLUSION OF THE PUBLIC

RESOLVED: That in relation to the following items the public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exemptions outweighs the public interest in disclosing the information, for the reasons set out in the report.

67. MAJOR CONTRACT PROCUREMENT CONTRACTOR EVALUATION

Consideration was given to a joint exempt report of the Head of Operational Services & Head of Streetscene which informed Members of the outcome of the contractor evaluation process in the procurement of the Councils major contracts.

The report was exempt from publication as it included information relating to the financial or business affairs of third party companies/bidders and therefore the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

When the award of the contract for Lot 2 was put to the vote, Councillors Chegwyn and Wright abstained from the voting.

RESOLVED: That the contract for Lot 2 (Environmental and Streetscene Services) for provision of services to the Council be awarded as per the recommendation contained in the report.

68. REPLACEMENT LANDING STAGE

By reason of special circumstances, the Chairman determined that the following item be considered at this meeting notwithstanding the fact that the item had not been available for public inspection in accordance with the provisions of Section 100B(4)(a) of the Local Government (Access to Information) Act 1985.

The special circumstances were created by the need to approve the completion of negotiations prior to the contractor starting work on site.

The report was exempt from publication as it contained details of the financial affairs of the Council and a third party at a time when negotiations were not finally concluded. These negotiations could be prejudiced if this information were made public which may have an adverse impact on the arrangement to the detriment of the Council tax payers. Therefore the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Consideration was given to an exempt report of the Leisure and Corporate Services Manager which provided an update to Members on the progress of the project to replace the landing stage.

RESOLVED: That the amendment of the Chattel lease to allow for an extension period of a further 10 years be approved and the Borough Solicitor be authorised to enter into such legal documentation as is necessary to give effect to this decision.

The meeting ended at 5.25 pm

GOSPORT BOROUGH COUNCIL

Board/Committee	COUNCIL
Date of meeting	02 FEBRUARY 2011
Title	PORTSMOUTH & GOSPORT JOINT BOARD – MEMBER VACANCY
Author	BOROUGH SOLICITOR
Status	FOR DECISION

Purpose

To fill the Member vacancy on the Portsmouth & Gosport Joint Board up to 31 December 2011.

Recommendation

That Council:

- (i) reviews the allocation of seats and allocates the vacant seat to the Conservative Group; and
- (ii) appoints a Conservative member to the vacant seat on the Portsmouth & Gosport Joint Board for the remainder of the 3 year period of office up to 31 December 2011.

1.0 BACKGROUND

- 1.1** The Portsmouth and Gosport Joint Board Licences the Watermen and their vessels, which operate in the confines of Portsmouth Harbour and areas adjacent to the Isle of Wight.
- 1.2** The Joint Board consists of 12 members, six from Gosport Borough Council and six from Portsmouth City Council. For a meeting to be quorate it is a requirement that six members must be in attendance i.e. three Members each from the Borough Council and City Council.

2.0 REPORT

- 2.1** The Joint Board was established by the Ferry Acts of 1809 and 1812 and these Acts were updated by the Gosport and Alverstoke Urban District Council Act 1919 and the Portsmouth Corporation Act 1920.

2.2 The current membership for the Borough Council's six members is as follows:

Councillors Edgar, Edwards, Hook, Mrs Searle, Smith (suspended) and one vacancy

2.3 The Council has six seats on the Joint Board and as no alternative arrangements for the filling of these seats has been approved by all members of the Council; the allocation of seats must be in accordance with Section 15 of the Local Government and Housing Act 1989.

2.4 In essence this means that the allocation of the seats has to satisfy the following principles. Firstly, that all seats are not allocated to the same political group and secondly, that the majority of seats go to the political group with the majority on the full Council. In filling this vacancy the Council should review the allocation of seats and as there is now a Conservative majority the vacant seat should be allocated to the Conservative Group.

2.5 The current Member vacancy on the Joint Board was left vacant at the Adjourned Annual Council meeting in May 2010. It is important that this vacancy is filled as the Joint Board this year will be called upon to make some important decisions as to its abolition. As per my report to the last Council meeting in November 2010 the two Councils through the Joint Board are trying to abolish the Board through to 2006 Boatmasters' Regulations consultation exercise. Therefore it is important that as many Borough Council representatives attend Joint Board meetings as possible; thus meeting the minimum quorum requirement of three Members in attendance.

Financial implications:	None
Legal Implications:	Contained in paragraphs 2.3 - 2.5 of the report
Service Improvement Plan implications:	N/A
Corporate Plan:	N/A
Risk Assessment	N/A
Background Papers:	Council meeting (26 November 2008) report
Appendices/Enclosures:	None
Report author/Lead Officer:	Linda Edwards, Borough Solicitor (Ext: 5401)