Dudley Metropolitan Borough Council

Meeting of the Council

Monday, 23rd February, 2015 at 6.00pm

in the Council Chamber at the Council House, Priory Road, Dudley

You are hereby summoned to attend a meeting of the Dudley Metropolitan Borough Council for the purpose of transacting the business set out in the numbered agenda items listed below.

Agenda - Public Session
(Meeting open to the public and press)

Prayers

1. Apologies for absence.

2. To receive any declarations of interest under the Members' Code of Conduct.

3. To confirm and sign the minutes of the meeting of the Council held on 1st December and the extraordinary meeting held on 19th December, 2014 as a correct record.

4. Presentation by the Chief Fire Officer.

5. Mayor's Announcements.

6. To receive reports from meetings as follows:

   Meeting of the Cabinet held on 11th February, 2015:

   Councillor P Lowe to move:

   (a) Capital Programme Monitoring (Pages 1– 13)

   Councillor G Partridge to move:

   (b) Deployment of Resources – Housing Revenue Account and Public Sector Housing Capital (Pages 14 – 38)

Meeting of the Audit and Standards Committee held on 10th February, 2015:

Councillor J Cowell to move:

(c) Treasury Management (Pages 39 – 55)

7. To answer questions under Council Procedure Rule 11.

Questions on the Minutes of the Cabinet and Committees, Community Forums and the Delegated Decision Summaries – these are contained in the separate book circulated to Members of the Council.

8. To consider any business not on the agenda which by reason of special circumstances the Mayor is of the opinion should be considered at the meeting as a matter of urgency under the provisions of the Local Government Act 1972.

Strategic Director (Resources and Transformation)
Dated: 12th February, 2015

Distribution: All Members of the Council

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- The Democratic Services contact officer for this meeting is Steve Griffiths, Telephone 01384 815235 or E-mail **steve.griffiths@dudley.gov.uk**

Dudley Metropolitan Borough

**Minutes of the proceedings of the Council
at the meeting held on Monday, 1st December, 2014
at 6.00 pm at the Council House, Dudley**

Present:

Councillor M Aston (Mayor)
Councillor S Waltho (Deputy Mayor)
Councillors A Ahmed, K Ahmed, S Ali, A Aston, N Barlow, C Baugh, C Billingham, H Bills, D Blood, P Bradley, D Branwood, P Brothwood, K Casey, D Caunt, I Cooper, B Cotterill, J Cowell, T Crumpton, W Duckworth, C Elcock, B Etheridge, S Etheridge, M Evans, K Finch, J Foster, A Goddard, C Hale, M Hanif, P Harley, R Harris, D Hemingsley, S Henley, T Herbert, Z Islam, R James, L Jones, K Jordan, I Kettle, P Lowe, I Marrey, J Martin, P Miller, M Mottram, N Neale, G Partridge, C Perks, D Perks, H Rogers, R Scott-Dow, K Shakespeare, G Simms, D Sparks, A Taylor, E Taylor, H Turner, K Turner, S Turner, D Tyler, D Vickers, M Wood and Q Zada together with the Chief Executive and other Officers.

Prayers

The Mayor's Chaplain led the Council in prayer

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44 **Apologies for Absence**

Apologies for absence were received on behalf of Councillors S Arshad, M Attwood, R Body, A Finch, N Gregory, P Martin, M Roberts, D Russell and M Wilson.

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45 **Declarations of Interests**

Declarations of interests, in accordance with the Members' Code of Conduct, were made by the following Members:

Councillor Q Zada – Minute No. 34 of the Development Control Committee – Planning Application No. P14/1231 (Land Between 123 and 130 Northfield Road, Netherton) – Pecuniary interest in view of him being the applicant and owner of the land.

Councillor H Rogers – Minute No. 14 of the Ernest Stevens Trusts Management Committee (Mary Stevens Park, Worcester Street, Stourbridge – Cafe to Lease) and Minute No. 15 (Stevens Park Wollescote, Quarry Bank Park and Mary Stevens Park, Stourbridge – Provision of Ball Games on Sundays) – Non-pecuniary interest as Chair of the Friends Group for Mary Stevens Park and Swinford Common. Also in relation to her involvement with the Project Implementation Team – Heritage Lottery Bid for Mary Stevens Park and attendance at stakeholder meetings.

Councillor J Cowell – Minute No.14 of the Ernest Stevens Trusts Management Committee (Mary Stevens Park, Worcester Street, Stourbridge – Cafe to Lease) and Minute No. 15 (Stevens Park Wollescote, Quarry Bank Park and Mary Stevens Park, Stourbridge – Provision of Ball Games on Sundays) – Non-pecuniary interest as a Trustee of Mary Stevens Hospice.

Councillor M Hanif – Minute No.14 of the Ernest Stevens Trusts Management Committee (Mary Stevens Park, Worcester Street, Stourbridge – Cafe to Lease) and Minute No. 15 (Stevens Park Wollescote, Quarry Bank Park and Mary Stevens Park, Stourbidge – Provision of Ball Games on Sundays) – Non-pecuniary interest as a Trustee of Mary Stevens Hospice and his attendance at meetings concerning Wollescote Park.

Councillor L Jones – Minute No.14 of the Ernest Stevens Trusts Management Committee (Mary Stevens Park, Worcester Street, Stourbridge – Cafe to Lease) and Minute No. 15 (Stevens Park Wollescote, Quarry Bank Park and Mary Stevens Park, Stourbridge – Provision of Ball Games on Sundays) – Non -pecuniary interest as a former Trustee of Mary Stevens Hospice.

Councillor G Partridge - Minute No.14 of the Ernest Stevens Trusts Management Committee (Mary Stevens Park, Worcester Street, Stourbridge – Cafe to Lease) and Minute No. 15 (Stevens Park Wollescote, Quarry Bank Park and Mary Stevens Park, Stourbridge – Provision of Ball Games on Sundays) – Non-pecuniary interest as she received invitations to the Stakeholders meetings and had been lobbied concerning Minute No. 15.

Councillor I Marrey – Minute No.14 of the Ernest Stevens Trusts Management Committee (Mary Stevens Park, Worcester Street, Stourbridge – Cafe to Lease) and Minute No. 15 (Stevens Park Wollescote, Quarry Bank Park and Mary Stevens Park, Stourbridge – Provision of Ball Games on Sundays) – Non-pecuniary interest in relation to stakeholders meetings.

Councillor M Wood – Minute No. 29 of the Cabinet (Demographic Growth Funding – The Creation of a New Special Educational Needs Post 16 Facility) – Non-pecuniary interest as Governor (and Chair of the Finance Committee) at Halesbury School and Vice-Chair of the Board of Trustees at the People's Field Trust (Halesbury and Sutton Schools).

Councillor T Crumpton – All matters affecting schools – Non-pecuniary interest as a relative worked as a supply teacher.

Councillor A Aston – All matters relating to West Midlands Ambulance Service (WMAS) – Pecuniary interest as an employee of WMAS.

Councillor S Turner – Any references to matters concerning Dudley College – Pecuniary interest in view of his employment as a Lecturer.

Councillor G Simms – Issues relating to Looked After Children – Non-pecuniary interest in view of her employment with an independent fostering agency.

Councillor Q Zada – Issues relating to Children, Young People and Families – Non-pecuniary interest as an employee of Black Country Partnership NHS Trust.

Councillors M Evans, D Hemingsley and D Sparks – Agenda Item No. 6(b) (Capital Programme Monitoring) – reference to Castle Hill Development – Non-pecuniary interests as trustees of Dudley Zoo.

All Directors and Assistant Directors – Minute No. 30 of the Cabinet (Review of Senior Management and Operational Structure) and Agenda Item No. 9 (Strategic Director and Statutory Officer Appointments) – Pecuniary interests in view of employment with Dudley MBC.

Councillor H Rogers – Agenda Item No. 6(b) and Minute No. 36 of the Cabinet (Capital Programme Monitoring) – reference to Lea Vale Road Culvert – Pecuniary interest as joint owner of 144 Lea Vale Road, Stourbridge.

Councillor D Sparks – Agenda Item No. 6(b) and Minute No. 36 of the Cabinet (Capital Programme Monitoring) – reference to Lea Vale Road Culvert – Pecuniary interest as a member of his family owned a property in Lea Vale Road, Stourbridge.

Councillor D Tyler - Agenda Item No. 6(b) (Capital Programme Monitoring) – reference to Castle Hill Development – Non-pecuniary interest as a Co-opted Member in relation to Dudley Zoo.

Councillor Q Zada – Agenda Item No. 6(d) (Annual Review of the Constitution) – Integrated Transport Authority – Establishment of an Overview and Scrutiny Committee – Non-pecuniary interest as a Member of the Centro Members Joint Committee.

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46 **Minutes**

Resolved

> That the minutes of the Council held on 13th October, and the Extraordinary Council held on 24th October, 2014 be approved as correct records and signed.

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47 **Mayor’s Announcements**

Borough Athletes

The Mayor reported on the success of Borough athletes who were in attendance at the meeting. Following the Mayor’s comments, the Council congratulated all concerned for their commitment and dedication as they continued to represent the Dudley Borough with great distinction.

Chatback DVD – "Anybody's Child"

The Mayor reported on the DVD produced by Chatback Productions entitled "Anybody's Child" to raise awareness concerning child sexual exploitation. Following comments from Councillor T Crumpton, the Mayor presented Jane Ahmed from Chatback with a certificate. The Council congratulated Jane and the Team involved in this production.

The Crystal Dementia Gateway

The Mayor reported that the Crystal Dementia Gateway had recently received a prestigious Gold Standard Award. Following remarks from Councillor D Branwood, the Mayor presented the certificate to representatives of the Crystal Dementia Gateway and the Council congratulated all concerned.

Queens Cross Network

The Mayor reported that the staff at Queens Cross Network had recently been successful in the Great British Care 'Putting People First' Awards. Following remarks from Councillor D Branwood, the Mayor presented the award to representatives of the Queens Cross Network and the Council congratulated all concerned.

Civic Carol Service

The Mayor reported that the Civic Carol Service would be held on 18th December, 2014 at 7.30pm at St Mark's Church, Pensnett.

Sponsored Sleep-out

The Mayor reported that Councillors R Body and P Lowe were holding a sponsored sleep-out from 7.00pm on Christmas Eve to 7.00am on Christmas Day. This was to raise awareness of the support needed to help homeless teenagers in the Black Country. Sponsorship money would be donated to the YMCA Black Country Group Charity.

Sarah Norman

The Mayor welcomed Sarah Norman to the meeting. It was reported that Sarah would be taking up her new role as Chief Executive on 19th January, 2015 and the Mayor wished her every success for the future.

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48 **Leader of the Council**

In accordance with Article 7.03 of the Council's Constitution, Councillor D Sparks reported on his resignation as Leader of the Council with immediate effect.

It was moved by Councillor D Sparks, duly seconded and

Resolved

> That, in accordance with the provisions of the Constitution, Councillor P Lowe be elected as Leader of the Council with immediate effect.

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49 **Medium Term Financial Strategy**

A report of the Cabinet was submitted.

It was moved by Councillor S Turner, seconded by Councillor P Lowe and

Resolved

(1) That, in respect of the Council Tax Reduction (CTR) scheme, the transitional arrangement be terminated on 31st March 2015 and that the full 20% cut be implemented from 1st April 2015, and that full protection be given to pensioners, disabled adults, disabled children, war pensioners and lone parents with a child under 5, as set out in paragraph 4 of the report now submitted.

(2) That delegated powers be given to the Director of Corporate Resources for making other changes to the documented CTR 2015/16 scheme in line with any government prescribed regulations, upratings and other minor miscellaneous amendments; the resulting 2015/16 scheme documentation to be published on the Council's website before 31st January, 2015.

(3) That the delegation for approval of voluntary redundancies to the Cabinet Member for Human Resources, Legal, Property and Health and the Director of Corporate Resources, and of compulsory redundancies to the Cabinet Member for Human Resources, Legal, Property and Health and the Assistant Director for Human Resources and Organisational Development be confirmed up to an initial maximum of £5.0m for direct redundancy costs and the capitalised cost of pension strain, in respect of redundancies required to achieve the proposed savings set out in the report submitted to the Cabinet.

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50 **Capital Programme Monitoring**

A report of the Cabinet was submitted.

It was moved by Councillor P Lowe, seconded by Councillor D Sparks and

Resolved

(1) That current progress with the 2014/15 Capital Programme, as set out in Appendix A to the report, be noted and that budgets be amended to reflect the reported variances.

(2) That £600,000 of funding be reallocated from the Housing Assistance Grants budget in order to address pressures on waiting lists for Disabled Facilities Grants, in 2014/15, as set out in paragraph 5 of the report now submitted.

(3) That the allocation of funding for the North Priory Community Centre be noted, and the project included in the Capital Programme, as set out in paragraph 6 of the report now submitted.

(4) That the Clean Vehicle Technology funding allocation be noted and the expenditure included in the Capital Programme, as set out in paragraph 7 of the report now submitted.

(5) That the proposed improvements to Coronation Gardens be included in the Capital Programme, as set out in paragraph 8 of the report now submitted.

(6) That the revised funding for the third phase of the Dudley Grid for Learning project be approved, as set out in paragraph 9 of the report now submitted.

(7) That the urgent amendment to the Capital Programme, as set out in paragraph 10 of the report now submitted, be noted.

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51 **Review of Housing Finance**

A report of the Cabinet was submitted.

It was moved by Councillor G Partridge, seconded by Councillor D Sparks and

Resolved

(1) That the revised Housing Revenue Account (HRA) budget for 2014/15 as indicated in paragraphs 5 to 13, and as set out in Appendix 1 to the report, be approved.

(2) That the revised Public Sector Housing capital programme for 2014/15 to 2018/19 as indicated in paragraphs 14 to 16 and as set out in Appendix 2 to the report, including the increase in HRA borrowing in 2015/16 and 2016/17 to fund new building under the Local Growth Fund, be approved.

(3) That provision for the buy back of the properties, as referred to in paragraph 17 of the report now submitted, be added to the Capital Programme as the properties are purchased.

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52 **Annual Review of the Constitution**

A report of the Cabinet was submitted.

It was moved by Councillor R Harris, seconded by Councillor D Sparks and

Resolved

(1) That the Director of Corporate Resources be authorised to make any urgent, necessary or consequential changes to the Constitution arising from the ongoing review of the Council's Senior Management and Organisational Structure.

(2) That the Overview and Scrutiny Management Board consider revisions to the Council's Scrutiny Committees and associated scrutiny arrangements in advance of the 2015/16 municipal year with a view to recommendations being submitted to the annual meeting of the Council in May, 2015.

(3) That the creation of the Integrated Transport Authority (ITA) Overview and Scrutiny Joint Committee in the form set out in the report and at Appendix 1 be approved.

(4) That a Member be appointed as this Council's representative on the ITA Overview and Scrutiny Joint Committee.

(5) That West Midlands Joint Committee be given delegated powers to determine the remaining places on the ITA Overview and Scrutiny Joint Committee on the principles set out in this report and Appendix 1 in order to establish political proportionality.

(6) That the Director of Corporate Resources be authorised to agree and enter into such documents that are necessary to give effect to the above decisions concerning the ITA Overview and Scrutiny Joint Committee.

(7) That the proposals set out in this report to comply with the Openness of Local Government Bodies Regulations 2014 be approved, including the amendment of Council Procedure Rule 24.6 as referred to in paragraph 28.

(8) That the amendment of the Employee Code of Conduct, as set out in paragraph 33, be endorsed.

(9) That appropriate references to the Anti –Social Behaviour, Crime and Policing Act 2014 and the specific provisions referred to in paragraph 36 be included in Part 3 of the Constitution under the portfolios of the relevant Cabinet Members and Officers.

(10) That the proposed amendments to the powers relating to dangerous trees and the functions of the Development Control Committee relating to trees be approved, subject to the revised wording of the Development Control Committee terms of reference being agreed by the Director of Corporate Resources in consultation with the Director of the Urban Environment and the Chair and Vice-Chair of the Development Control Committee.

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53 **Notices of Motion**

(a) Procurement Strategy

Pursuant to Council Procedure Rule 12, Councillor Q Zada had given notice of a motion on 24th October, 2014.

The Mayor reported that under Council Procedure Rule 12.2, Councillor Q Zada had given notice that consideration of the motion would be deferred.

(b) Public Houses

Pursuant to Council Procedure Rule 12, Councillor P Brothwood had given notice of a motion on 11th November, 2014.

A proposed amendment had been circulated around the Council Chamber. Councillor Brothwood indicated that he was content with the wording of the proposed amendment. With the consent of the Council, Councillor Brothwood altered his original motion in accordance with Council Procedure Rule 14.7 to incorporate the amended wording.

The following motion was moved by Councillor P Brothwood and seconded by Councillor D Perks.

> "Public Houses: The Council instructs that an immediate review is undertaken of the relevant policies, planning legislation and guidance concerning the change of use or redevelopment of a Public House, with a view to an assessment being undertaken of:
>
> (a) A Viability report that demonstrates to the Council's satisfaction that the public house is no longer economically viable, including the length of time the public house has been vacant, evidenced by the applicant of active and appropriate marketing for a constant period of at least 36 months at the existing use value;
>
> (b) The role the public house plays in the provision of space for community groups to meet and whether the loss of such space would contribute to a shortfall in local provision, including evidence that the premises have been offered to use or to hire at a reasonable charge to community or voluntary organisations over a 12 month period and there is no longer a demand for such use;

(c) The design, character and heritage value of the public house and the significance of the contribution that it makes to the streetscape and local distinctiveness, and where appropriate historic environment, and the impact the proposal will have on its significance;

(d) The ability and appropriateness of the building and site to accommodate an alternative use or uses without the need for demolition or alterations that may detract from the character and appearance of the building;

and that a report is submitted to the Cabinet Member for Regeneration for consideration and then to be reported back to the next available Development Control Committee."

A closure motion was moved by Councillor K Turner, duly seconded and

Resolved

That the question be now put.

Councillor P Brothwood did not exercise his right of reply pursuant to Council Procedure Rule 14.9.

The original motion, as altered by Councillor Brothwood, was thereupon put to the vote and it was

Resolved

Public Houses: The Council instructs that an immediate review is undertaken of the relevant policies, planning legislation and guidance concerning the change of use or redevelopment of a Public House, with a view to an assessment being undertaken of:

(a) A Viability report that demonstrates to the Council's satisfaction that the public house is no longer economically viable, including the length of time the public house has been vacant, evidenced by the applicant of active and appropriate marketing for a constant period of at least 36 months at the existing use value;

(b) The role the public house plays in the provision of space for community groups to meet and whether the loss of such space would contribute to a shortfall in local provision, including evidence that the premises have been offered to use or to hire at a reasonable charge to community or voluntary organisations over a 12 month period and there is no longer a demand for such use;

(c) The design, character and heritage value of the public house and the significance of the contribution that it makes to the streetscape and local distinctiveness, and where appropriate historic environment, and the impact the proposal will have on its significance;

(d) The ability and appropriateness of the building and site to accommodate an alternative use or uses without the need for demolition or alterations that may detract from the character and appearance of the building;

and that a report is submitted to the Cabinet Member for Regeneration for consideration and then to be reported back to the next available Development Control Committee.

(c) <u>Combined Authority</u>

Pursuant to Council Procedure Rule 12, Councillor B Etheridge had given notice of a motion on11th November, 2014.

The following motion was moved by Councillor B Etheridge and seconded by Councillor P Brothwood.

"The Council notes the joint press statement dated 7th November, 2014 issued by the Leaders of the four Black Country Councils and Birmingham City Council concerning their agreement, in principle, to work as a Combined Authority.

There has been insufficient discussion of the implications of this key strategic issue at the Cabinet and the full Council. Councillors and local people have not been given the opportunity to engage in full and meaningful consultation on these proposals.

This Council therefore resolves:

(1) That all work on the formation of a Combined Authority be suspended until such time as the implications have been fully debated; and

(2) That a debate for all 72 Members concerning the Combined Authority proposals be organised to take place in this Council Chamber as a matter of urgency."

An amendment was moved by Councillor P Lowe and seconded by Councillor P Harley to amend the motion as set out below:-

"The Council notes the joint press statement dated 7th November, 2014 issued by the Leaders of the four Black Country Councils and Birmingham City Council concerning their agreement, in principle, to work as a Combined Authority.

We recognise the need for significant discussion of the implications of this key strategic issue at the Cabinet and the full Council. Councillors and local people will need to be given the opportunity to engage in full and meaningful consultation on these proposals as they emerge.

This Council therefore resolves:-

(1) That the Leader works with officers to establish an all-Party Group to discuss the implications of a Combined Authority and feedback to all Members and the wider community as the detail emerges."

Following a debate on the amendment, a closure motion was moved by Councillor S Turner, duly seconded and

Resolved

That the question be now put.

Councillor B Etheridge exercised his right of reply to the debate pursuant to Council Procedure Rule 14.9.

The amendment was put to the vote and carried.

The motion, as amended, thereupon became the substantive motion. The substantive motion was put to the meeting and it was

Resolved

The Council notes the joint press statement dated 7th November, 2014 issued by the Leaders of the four Black Country Councils and Birmingham City Council concerning their agreement, in principle, to work as a Combined Authority.

We recognise the need for significant discussion of the implications of this key strategic issue at the Cabinet and the full Council. Councillors and local people will need to be given the opportunity to engage in full and meaningful consultation on these proposals as they emerge.

This Council therefore resolves:-

(1) That the Leader works with officers to establish an all-Party Group to discuss the implications of a Combined Authority and feedback to all Members and the wider community as the detail emerges.

54 **Questions under Council Procedure Rule 11**

During questions asked under Council Procedure Rule 11, there were no decisions that the Leader, Cabinet Members or Chairs agreed to have reconsidered.

55 **Strategic Director and Statutory Officer Appointments**

NB: All Directors, Assistant Directors and the Treasurer left the meeting during consideration of this item.

A report of the Chief Executive was submitted.

It was moved by Councillor P Lowe, seconded by Councillor S Turner and

Resolved

(1) That with effect from 19th January, 2015:-

(a) John Millar be appointed to the post of Strategic Director (Environment, Economy and Housing), in accordance with the salary and terms and conditions of employment applicable to the post.

(b) Philip Tart be appointed to the post of Strategic Director (Resources and Transformation), in accordance with the salary and terms and conditions of employment applicable to the post and that Philip Tart continue to be designated as the Council's Monitoring Officer in the role of Strategic Director.

(c) Iain Newman continue to be designated as the officer responsible for the proper administration of the Council's financial affairs under and in accordance with Section 151 of the Local Government Act, 1972 in his role as Chief Officer (Finance and Legal Services).

(2) That subject to the necessary pre-employment checks, the Council note that Deborah Harkins will be appointed to the post of Chief Officer (Health and Wellbeing), and that Ms Harkins be designated as the statutory Director of Public Health from 19th January, 2015.

(3) That the external advertisement of the post of Strategic Director (People Services) to undertake statutory adult social care and children's services responsibilities be noted; that interviews be undertaken by the Appointments Committee and a subsequent recommendation be made to the Council on 19th December, 2014.

(4) That the Strategic Director (Resources and Transformation), in consultation with the Leader, the appropriate Cabinet Member(s) and the Chief Officer (Finance and Legal Services) be authorised to make the necessary internal arrangements for the nomination of the Deputy Monitoring Officer and Deputy Section 151 Officer.

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56 **Urgent Business**

There was no urgent business raised under the provisions of the Local Government Act 1972.

The Mayor wished everyone a Merry Christmas and reminded Members that there would be an extraordinary meeting of the Council at 5.00pm on Friday, 19th December, 2014.

The meeting ended at 7.50pm

MAYOR

Dudley Metropolitan Borough

Minutes of the proceedings of the Council
at an Extraordinary Meeting held on Friday, 19th December, 2014
at 5.00 pm at the Council House, Priory Road, Dudley

Present:

Councillor M Aston (Mayor)
Councillor S Waltho (Deputy Mayor)
Councillors K Ahmed, S Ali, C Baugh, C Billingham, H Bills, D Blood, R Body, P Bradley, D Branwood, P Brothwood, K Casey, D Caunt, I Cooper, B Cotterill, J Cowell, T Crumpton, W Duckworth, C Elcock, B Etheridge, S Etheridge, M Evans, A Finch, K Finch, J Foster, A Goddard, C Hale, M Hanif, P Harley, R Harris, D Hemingsley, S Henley, T Herbert, Z Islam, L Jones, P Lowe, J Martin, P Martin, P Miller, M Mottram, N Neale, G Partridge, C Perks, D Perks, H Rogers, D Russell, R Scott-Dow, K Shakespeare, G Simms, D Sparks, E Taylor, S Turner, D Tyler, D Vickers, M Wood and Q Zada together with the Chief Executive and other Officers.

Prayers

The Mayor's Chaplain led the Council in prayer.

Prior to the commencement of the formal business, the Council observed a period of silence in memory of the victims of a terrorist attack on a school in Peshawar, Pakistan on 16th December, 2014.

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57 **Apologies for Absence**

Apologies for absence were received on behalf of Councillors A Ahmed, S Arshad, A Aston, M Attwood, N Barlow, N Gregory, R James, K Jordan, I Kettle, I Marrey, M Roberts, A Taylor, H Turner, K Turner and M Wilson.

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58 **Declarations of Interests**

No declarations of interests, in accordance with the Members' Code of Conduct, were made in respect of the business to be transacted at this Extraordinary Meeting of the Council.

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59 **Mayor's Announcements**

(a) Councillor David Sparks OBE

The Mayor reported that at the meeting on 1st December, 2014, Councillor P Lowe had been elected as Leader of the Council. In line with delegated powers, under Part 3 of the Constitution, the Leader had appointed Councillor S Turner to the post of Deputy Leader with effect from 5th December, 2014. Councillor D Sparks had been appointed to the post of Cabinet Member without portfolio also with effect from 5th December, 2014.

The Mayor, along with other Members of the Council, paid tribute to the work and achievements of Councillor D Sparks during his period of office as Leader of the Council and as Leader of the Labour Group. In addition to his Cabinet and ward duties, Councillor D Sparks would continue his role as Chair of the Local Government Association.

(b) John Polychronakis – Chief Executive

The Mayor reported that this would be the last meeting of the full Council attended by John Polychronakis prior to his retirement from the post of Chief Executive in January, 2015. The Mayor, along with other Members of the Council, paid tribute to John's long and distinguished local government service and his significant contribution to civic life in Dudley. The Council expressed best wishes for a long, healthy and happy retirement.

Following tributes from individual Members, John Polychronakis addressed the Council and thanked Members for their comments.

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60 **Post of Strategic Director (People Services)**

A report of the Chief Executive was submitted.

It was moved by Councillor P Lowe, seconded by Councillor S Turner and

Resolved

(1) That, in accordance with the recommendations of the Appointments Committee and subject to the necessary pre-employment checks, Anthony Oakman, currently the Executive Director - People (Adult and Children Services), Stoke on Trent City Council, be appointed to the post of Strategic Director (People Services) on the terms, conditions, allowances and salary applicable to the post, with effect from a date to be agreed.

(2) That, subject to his formal acceptance of the post, Anthony Oakman be appointed as the Officer responsible for the Council's statutory adult social care and children's services responsibilities with effect from the date his employment commences with Dudley MBC.

61 **Urgent Business**

There was no urgent business raised under the provisions of the Local Government Act 1972.

The Mayor wished everyone a happy Christmas and a peaceful, prosperous new year.

The meeting ended at 5.47pm

MAYOR

Meeting of the Council – 23rd February, 2015

Report of the Cabinet

Capital Programme Monitoring

Purpose of Report

1. To report progress with the implementation of the Capital Programme.

2. To propose amendments to the Capital Programme.

3. To propose the "Prudential Indicators" as required to be determined by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003.

4. To propose the Council's Minimum Revenue Provision (MRP) Policy for 2015/16.

Background

5. The table below summarises the *current* 3 year Capital Programme updated where appropriate to reflect latest scheme spending profiles.

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Public Sector Housing	43,278	47,267	54,275
Other Adult, Community & Housing	5,900	4,901	550
Urban Environment	26,894	21,013	5,873
Children's Services	14,900	14,443	161
Corporate Resources	2,597	1,414	1,266
Total spend	**93,569**	**89,038**	**62,125**
Revenue	15,321	15,802	13,690
Major Repairs Reserve (Housing)	22,176	22,457	22,744
Capital receipts	17,459	15,766	19,509
Grants and contributions (inc. Lottery)	25,367	12,473	94
Capital Financing Requirement*	13,246	22,540	6,088
Total funding	**93,569**	**89,038**	**62,125**

*This will be funded internally from the Council's cash flow resources as far as possible, rather than from external debt.

Note that the capital programme for future years is in particular subject to government grant allocations, some of which have not yet been announced. There is a report on the proposed Public Sector Housing capital programme elsewhere on this agenda.

6. In accordance with the requirements of the Council's Financial Regulations, details of progress with the 2014/15 Programme are given in Appendix A. It is proposed that the current position be noted, and that budgets be amended to reflect the reported variances. An update on progress with the Council's most significant capital schemes is shown in Appendix B.

Urban Environment

Colley Gate Toucan Crossing

7. The Council has received grant funding of £40,000 from the Department of the Environment, Food and Rural Affairs (DEFRA) Air Quality Fund to provide a toucan crossing in Colley Gate, Halesowen to assist traffic flow along Colley Gate with the intention of reducing congestion and improving air quality in the area. It is proposed that the allocation be noted and the project included in the Capital Programme.

Wordsley Park Garage

8. In line with current budgeted efficiency savings, it is proposed to consolidate the two existing Brierley Hill Green Care teams into one depot at Wordsley Park. In doing so cost savings can be realised through reduced lease, service, and maintenance costs. The cost to build a new fully secured vehicle garage and storage facilities within Wordsley Park to accommodate the consolidation would be around £195,000. These costs can be funded via prudential borrowing, which can be repaid from the annual revenue savings generated. It is proposed that the project be approved and included in the Capital Programme.

CCTV

9. Security provision at the Blowers Green and Lister Road depots has recently been reviewed and it is proposed that the current arrangements are changed in order to make annual revenue savings whilst ensuring robust out of hours security monitoring at the site. The proposal is for the installation of a monitored CCTV system linked to a call centre that is allied with the local police. Initial capital costs of the scheme are £41,000. These costs can be funded via prudential borrowing, which can be repaid from the savings generated. It is proposed that the project be approved and included in the Capital Programme.

Highways Maintenance Block allocations 2015/16 – 2017/18

10. The Department for Transport has recently announced the above. Dudley's allocations are as follows:

2015/16	£3,036,000
2016/17	£2,783,000
2017/18	£2,699,000

The distribution of these allocations between roads, structures and street lighting will be determined in due course in accordance with agreed procedures, in consultation with the Cabinet Member for Transportation. It is proposed that the allocations be included in the Capital Programme.

Children's Services

Universal Infant Free School Meals - Capital Funding Bid

11. The Council has been successful in its bid to the Department for Education (DfE) for funding to install a new kitchen at Netherton Church of England Primary School to enable the school to successfully deliver the Universal Infant Free School meal requirement. In order that recipient schools are not compromised in their ability to achieve value for money in negotiations with suppliers, the DfE will not be making public the funding amounts per school at this time.

It is proposed that the funding allocation be noted and the project included in the Capital Programme.

Corporate Resources

Energy Efficiency

12. Following the appointment of the Council's Energy Manager in September 2014, a number of initiatives have been identified that will reduce the amount of gas, electricity and water that the Council uses. Many of these projects will require initial capital investment to deliver long-term savings. Examples of projects that have been identified, for which capital funding is being sought include:

- efficient lighting (e.g. LED);
- roof insulation;
- Bore holes and associated infrastructure (for supplying cheap water);
- Upgraded air handling systems;
- Upgraded heating systems and controls.

In addition to delivering direct financial savings resulting from decreased use of gas, electric and water, additional savings will be achieved as the Council will have fewer carbon emissions on which to pay taxes.

The estimated cost of the initial projects of £140,000 can be met from available directorate revenue resources. It is proposed that these be approved and included in the Capital Programme, and that the Strategic Director (Resources and Transformation) be authorised to include further projects subject to establishing value for money and the availability of funding.

Urgent Amendments to the Capital Programme

Autism Innovation Grant

13. The Council has been allocated £18,500 to support work on implementing Think Autism, the recent update to the 2010 Adult Autism Strategy for England. The funding is intended to be used to purchase new electrical equipment or IT developments, or for making environments used by people with autism such as public buildings more autism friendly.

In order to enable the funding to be spent in accordance with the allocation letter, a decision (ref. DCR/21/2014) was made by the Leader of the Council in consultation with the Chief Officer (Finance and Legal Services) on 18th December, 2014 that the allocation be noted and the related spend be included in the Capital Programme.

Homer Hill Park

14. As part of the Homer Hill Park Master Plan, the construction of five new paths in or around the perimeter of Homer Hill Park are considered essential enhancements that will extend the existing footpath network to enable the majority of the park to be easily accessed via a surfaced pedestrian route. This is primarily for the benefit of the local community and elderly residents of The Limes, the new Extracare facility, which is due to open in March 2015.

The cost to construct five new pathways is estimated to be £70,000, of which the construction of the first four pathways would cost £34,000. This can be funded by proceeds from the sale of 5 Chase Road, Lower Gornal (the former Crematorium Lodge) and will allow this key project to be implemented. If further funding opportunities become available in the future, then the final fifth perimeter path could be added at a later date.

In order to enable the works to be undertaken as soon as practically possible whilst weather conditions allow, a decision (ref. DUE/02/2015) was made by the Leader of the Council in consultation with the Chief Officer (Finance and Legal Services) on 5th January, 2015 that the construction of five pathways in Homer Hill Park be included in the Capital Programme.

The CIPFA Prudential Code for Capital Finance in Local Authorities

15. The Local Government Act 2003 introduced a system of "prudential borrowing" which allows councils to set their own borrowing limits subject to criteria of prudence, affordability, and sustainability. The CIPFA Prudential Code sets out the indicators that authorities must use, and the factors they must take into account, to demonstrate that they have fulfilled this objective.

16. Details of the various indicators required, and the proposed figures to be set in relation to each indicator are set out at Appendix C.

Minimum Revenue Provision (MRP) Policy Statement

17. Before the start of each financial year each authority must agree its policy on making Minimum Revenue Provision (MRP) for repayment of non-Housing Revenue Account (HRA) borrowing incurred to fund Capital expenditure, in respect of that financial year. (There is no requirement to make MRP in respect of HRA borrowing.)

18. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2015/16 as follows. This is unchanged from the 2014/15 Policy.

- For unsupported borrowing to fund capital expenditure incurred from 1st April 2008 onwards, MRP be calculated on the basis of equal instalments or annuity as appropriate over the initial estimated life of the assets - the "Asset Life" method. And in respect of "PFI" schemes and other Finance Leases etc., MRP be calculated on a basis equivalent to the principal element of the unitary/lease payments. This would also apply to such expenditure incurred before 1st April 2008 but only subsequently included on the Balance Sheet as a result of changes to accounting arrangements. *(This means that such borrowing and other credit arrangements will be repaid over the life of the assets for which it was incurred, matching the costs with the benefits received.)*

- For all supported borrowing, and unsupported borrowing to fund capital expenditure incurred before 1st April 2008, MRP be calculated on the basis of the previous regulations - the “Regulatory Method”. *(This means that supported borrowing will mainly be repaid to match the support received from the Government, and that unsupported borrowing will be repaid as was anticipated when it was incurred, avoiding any change to the net impact on annual revenue budgets.)*

19. The Cabinet, at its meeting held on 11th February, 2015, resolved to recommend the Council to approve the recommendations set out below.

Finance

20. This report is financial in nature and information about the individual proposals is contained within the body of the report.

Law

21. The Council’s budgeting process is governed by the Local Government Act 1972, the Local Government Planning and Land Act 1980, the Local Government Finance Act 1988, the Local Government and Housing Act 1989, and the Local Government Act 2003.

Equality Impact

22. These proposals comply with the Council's policy on Equality and Diversity.

23. With regard to Children and Young People:

- The Capital Programme for Children’s Services will be spent wholly on improving services for children and young people. Other elements of the Capital Programme will also have a significant impact on this group.
- Consultation is undertaken with children and young people, if appropriate, when developing individual capital projects within the Programme.
- There has been no direct involvement of children and young people in developing the proposals in this report.

Recommendations

24. That the Council be recommended:

- That current progress with the 2014/15 Capital Programme, as set out in Appendix A be noted, and that budgets be amended to reflect the reported variances.

- That the grant funding for a toucan crossing in Colley Gate, Halesowen be noted and the project included in the Capital Programme, as set out in paragraph 7.

- That the Wordsley Park Garage project be approved and included in the Capital Programme, as set out in paragraph 8.

- That the CCTV project at Blowers Green and Lister Road depots be approved and included in the Capital Programme, as set out in paragraph 9.

- That the Highways Maintenance Block allocations 2015/16 – 2017/18 be included in the Capital Programme, as set out in paragraph 10.

- That the funding to install a new kitchen at Netherton Church of England Primary School be noted and the project included in the Capital Programme, as set out in paragraph 11.

- That the initial Energy Efficiency projects be approved and included in the Capital Programme, and that the Strategic Director (Resources and Transformation) be authorised to include further projects subject to establishing value for money and the availability of funding, as set out in paragraph 12.

- That the urgent amendments to the Capital Programme, as set out in paragraphs 13 to 14, be noted.

- That the Prudential Indicators as required to be determined by the CIPFA Prudential Code for Capital Finance in Local Authorities and the Local Government Act 2003, as set out in Appendix C, be agreed.

- That the Minimum Revenue Provision (MRP) Policy for 2014/15 be approved as set out in paragraph 18.

…………………………
Leader of the Council

Appendix A

2014/15 Capital Programme Progress to Date

Service	Budget £'000	Spend to 31st Dec £'000	Forecast £'000	Variance £'000	Comments
Public Sector Housing	43,278	31,449	43,278		
Other Adult, Community & Housing	5,900	4,050	5,900		
Urban Environment	26,894	15,540	26,544	-350	See note 1
Children's Services	14,900	6,974	14,900		
Corporate Resources	2,597	1,468	2,677	+80	See note 2
TOTAL	**93,569**	**59,481**	**93,299**	**-270**	

Note 1: Scope of works on Better Bus Area project reduced, and significant savings achieved through value engineering.

Note 2: Favourable price obtained for purchase of new franking machines, saving £10,000; extra capital costs of £90,000 on Transforming our Workplace, offset by savings on revenue element of project.

Progress with Major Capital Schemes

Adult, Community and Housing

New Council Housing
A contract has been awarded and work has now commenced on site at Norfolk Road in Wollaston, The Walk in Sedgley, the conversion of the former Wren's Nest Estate Office and two apartments at Holloway Chambers in Dudley.

The conversion of the former care home at Arcal Lodge, Sedgley is out to tender. Conversion of the former Archives building at Roseville is due to be submitted to planning late January / early February, and a local consultation event is planned for early February with works planned to commence summer 2015.

A number of smaller housing infill and garage sites across the borough are also being progressed through feasibility stage and site investigations; ecological and topographical reports are being prepared for the schemes currently in design stage.

Urban Environment

Street Lighting
The Street Lighting Central Management System (CMS) was fully commissioned and operational in April 2013 and conversion of the street lighting stock continues. As at 14th January 2015 20,200 of the Council's 32,000 street lights can now be controlled via the CMS system remotely to help save energy; 13,100 of these can be dimmed. Spend is forecast to be within budget and completion of the scheme is expected during financial year 2015/16.

Better Bus Area
The scheme which involves the construction of a new signal controlled pedestrian crossing on the A4036 Pedmore Road, and the creation of additional road space and signal controls to facilitate bus priority measures at the junction of the Boulevard with Mill St, Brierley Hill was granted planning permission in March 2014. The Pedmore Road pedestrian crossing was completed in December 2014 and the Boulevard bus priority element is programmed for completion in January 2015. Spend is forecast to be within budget.

Mary Stevens Park
The design team have finished detailed designs for the first two contracts for the Gates and bandstand restoration and the cafe building; tenders are to be awarded mid February. The Heritage Ranger has worked with the Friends group to develop a web site and promotion through social networking. A new 6 monthly events programme for the summer months is being developed .Volunteer recruitment is underway. Spend is forecast to be within budget.

Castle Hill
New Access Road: Phase 1a was completed during October 2012. Phase 1b (link road and roundabout) was completed April 2013.

Phase 2 onwards: This comprises the secondary route, recreational route, car parking and Visitor Hub.

Planning permission was granted on 12th March 2013. Work commenced onsite for the initial phase of the secondary route on 23rd September 2013 and was completed February 2014.

Work commenced on the lower level car parks on 4th December 2013, and completed March 2014. Work to upper level car park commenced April 2014, and was completed July 2014.

Three phases of landscape works have been completed to construct footpath links, planting to the car parks and the creation of the overflow car park. The contract for the Recreational route linking the Black Country Living Museum and the Dudley Canal Trust started in October 2014 and completed in March 2015. The work to create the new entrance into the Zoo is commenced in November 2014 for completion in April 2015. The new visitor hub building also commenced in November for completion in April 2015

Spend is forecast to be within budget.

<u>Dudley Marketplace and Town Centre</u>
The first phase of the overall Dudley Market Place Public Realm scheme, which is Castle Street/New Street, is substantially complete and was opened to full access on 10th August. The Earl of Dudley Statue work is still outstanding and will be progressed when we have reviewed the detailed costs shortly to be returned from the contractor. The Market Place (second phase) has now started and the market stalls are planned to be occupied by the market traders at the beginning of March. The project is due to complete on programme. Spend is forecast to be within budget.

<u>Coronation Gardens</u>
Detailed design is complete and tenders are being sought for the work, which is due to be on site between April and September. Spend is forecast to be within budget

Children's Services

<u>DGfL3</u>
Dudley Grid for Learning (DGfL3) includes a programme of ICT equipment upgrade and renewal across financial years 2013/14 & 2014/15. The Refresh of ICT infrastructure and classroom equipment has now been completed across the school estate with the exception of two schools; these schools have chosen to take their refresh at a later stage. The programme of associated expenditure is on schedule to be completed in 2014/15 with the exception of the two schools.

<u>Post 16 Facility for Pens Meadow School</u>
The programme for design and procurement of the project is on track and the projected capital spend is in line with Education Funding Agency requirements.

<u>Schools Basic Need projects</u>
The first phase of projects funded from Basic Need capital grant are progressing well. Projects at the Brook and Woodside Primary Schools were completed during the summer with both schools now being able to admit up to 60 children in each year group. Projects at Kates Hill and Gig Mill are on site and are due to be completed by Easter 2015. The project at Sledmere Primary is on site and is on target to be completed during August 2015.

Appendix C

CIPFA Prudential Indicators

The indicators set out below are specified in the CIPFA *Prudential Code for Capital Finance in Local Authorities* ("the Code"), which is required to be complied with as "proper practice" by Regulations issued consequent to the Local Government Act 2003. They are required to be set and revised through the process established for the setting and revising of the budget, i.e. by full Council following recommendation by the Cabinet. Indicators for the forthcoming and following years must be set before the beginning of the forthcoming year, but may be revised at any time following due process.

The first group of indicators (1-5) are essentially concerned with the prudence and affordability of the Council's capital expenditure and borrowing plans in the light of resource constraints. The remaining indicators (6-7) are primarily concerned with day-to-day borrowing and treasury management activity.

The proposed figures for each indicator have been developed in the light of the Council's overall resource position and medium term financial strategy and have regard to the following matters as required by the Code:

Service Objectives;
Stewardship of Assets;
Value for Money;
Prudence and Sustainability;
Affordability;
Practicality.

Affordability and prudence are specifically addressed by the indicators set out below. The other matters listed form a fundamental part of the Council's budget setting, management and monitoring procedures - as summarised in the Financial Management Regime (FMR) which forms part of the Constitution - and with particular relevance to capital expenditure, set out in more detail in the Council's Capital Strategy.

Appropriate procedures have been established for proper management, monitoring and reporting in respect of all the indicators, and the risks associated therewith.

Indicators set for 2014/15, 2015/16 and 2016/17 this time last year have been reviewed and where necessary are proposed to be updated to reflect latest forecasts.

1. Estimated and Actual Capital Expenditure

This indicator forms the background to all the other indicators, given that the overall rationale of the prudential system is to provide flexibility for borrowing to fund capital investment. Estimated capital expenditure is required to be calculated for the next 3 financial years, and actual expenditure stated for the previous financial year, with totals split between HRA and non-HRA capital expenditure.

Subject to the other proposals in this report being agreed, together with those contained in reports elsewhere on the agenda, the proposed indicators are as follows.

	2013/14 £m Actual	2014/15 £m Revised Estimate	2015/16 £m Revised Estimate	2016/17 £m Revised Estimate	2017/18 £m Estimate
Non - HRA	45.5	50.0	45.5	10.6	9.8
HRA	40.8	43.3	46.4	48.8	39.4
Total	**86.3**	**93.3**	**91.9**	**59.4**	**49.2**

2. Estimated and Actual Capital Financing Requirement (CFR)

The Capital Financing Requirement is a measure of the Council's underlying need to borrow to fund its capital expenditure once other sources of funding - grants, capital receipts and revenue - have been taken into account. The CFR increases when expenditure is incurred, and reduces when provision is made to repay debt.

The proposed indicators consistent with the level of capital expenditure set out above are as follows.

	2013/14 £m Actual	2014/15 £m Revised Estimate	2015/16 £m Revised Estimate	2016/17 £m Revised Estimate	2017/18 £m Estimate
Non - HRA	288.3	286.9	292.5	277.3	262.4
HRA	464.1	464.1	465.6	470.3	470.3
Total	**752.4**	**751.0**	**758.1**	**747.6**	**732.7**

The limit on the HRA CFR imposed on implementation of self-financing, plus subsequent approved increases is £470.3m.

3. Gross Debt and the Capital Financing Requirement.

In order to ensure that in the medium term, debt can be incurred only for capital purposes, this indicator requires that gross external debt 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 the current and next two financial years.

It is anticipated that this requirement will be met for the years 2014/15 to 2017/18.

4. Estimate of the Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

This indicator is intended to demonstrate the affordability of capital investment decisions in terms of their impact on levels of Council Tax and Housing Rents.

The forecast debt charges resulting from anticipated overall borrowing are fully reflected in the figures set out in the Budget Strategy report being considered by Cabinet on 25th February and the Public Sector Housing report elsewhere on this agenda. There are no proposals to undertake new borrowing for General Fund capital expenditure. The debt charges resulting from new borrowing for Public Sector Housing capital expenditure will be funded by the rental stream from the resulting additional homes. The impact on Council Tax and Rents is therefore as follows.

	2015/16 £	2016/17 £	2017/18 £
Increase in Annual Band D Council Tax	0	0	0
Increase in Weekly Housing Rent	0	0	0

5. Estimated and Actual Ratio of Capital Financing Costs to Net Revenue Stream

This indicator is intended to demonstrate the affordability of capital investment decisions in terms of the ratio of capital financing costs to overall resources, expressed as a percentage. The proposed indicators consistent with the level of capital expenditure set out above are as follows.

	2013/14 % Actual	2014/15 % Revised Estimate	2015/16 % Revised Estimate	2016/17 % Revised Estimate	2017/18 % Estimate
Non - HRA	10.3	9.2	10.7	11.6	11.7
HRA	44.6	43.8	44.4	44.2	43.9

6. The Authorised Limit, Operational Boundary, and Actual External Debt

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The Authorised Limit for external debt is a statutory limit (as per. section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it will be necessary for the Council to determine if it is prudent to raise the limit, or to instigate procedures to ensure that such a breach does not occur.

The Operational Boundary for external debt is a management tool for day-to day monitoring, and has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

Both the Authorised Limit and the Operational Boundary are split between conventional borrowing and "other long term liabilities" such as leases and other capital financing arrangements which would result in the related assets appearing on the Council's Balance Sheet. Such arrangements would include for example finance leases for the procurement of vehicles. Provided that the total Authorised Limit and Operational Boundary are not exceeded, the Director of Finance may authorise movement between the constituent elements within each total so long as such changes are reported to the next appropriate meeting of the Cabinet and Council.

	2013/14	2014/15 Revised	2015/16 Revised	2016/17 Revised	2017/18
	£m	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt:					
Borrowing	n/a	904	893	882	860
Other long term liabilities	n/a	37	43	36	30
Total	**n/a**	**941**	**936**	**918**	**890**
Operational boundary:					
Borrowing	n/a	775	796	800	801
other long term liabilities	n/a	37	43	36	30
Total	**n/a**	**812**	**839**	**836**	**831**
Actual External Debt:					
Borrowing	735.9	n/a	n/a	n/a	n/a
Other long term liabilities	32.1	n/a	n/a	n/a	n/a
Total	**768.0**	**n/a**	**n/a**	**n/a**	**n/a**

7. Adoption of the CIPFA *Code of Practice for Treasury Management in the Public Services*

This indicator is a fundamental requirement of the system in so far as it relates to treasury management activity. The Council has adopted the Code of Practice.

Dudley
Metropolitan Borough Council

Meeting of the Council – 23rd February, 2015

Deployment of Resources: Housing Revenue Account and Public Sector Housing Capital

Report of the Cabinet

Purpose of Report

1. The purpose of this report is to consider the proposals of the Cabinet regarding:

- the Housing Revenue Account (HRA) budget for 2015/16 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions.
- a revised HRA budget for 2014/15.
- a revised capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock for 2015/16 to 2018/19 and set a new budget for 2019/20.
- a revised capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock for 2014/15.
- the Medium Term Financial Strategy and 30 Year Business Plan for the HRA.

Background

2. The HRA is a "ring-fenced" revenue account and deals with landlord functions associated with public sector housing. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

3. A report containing the information below was submitted to the meeting of the Cabinet held on 11th February, 2015. The decisions of the Cabinet, in relation to paragraphs 4 to 14 and paragraph 27 below, were made under delegated powers as indicated in those paragraphs. The remaining issues require determination by the Council.

Rent increase

4. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance at the time relating to social housing rents. The Cabinet resolved that the next rent year will start on 6th April, 2015 and that there will be no increase to current rent levels. The report to the Cabinet indicated that the proposal on this had been considered carefully in the light of future affordability, the continuing financial viability of the HRA and the impact on our tenants.

5. Officers met with the interim Housing Board on 26th November, 2014 and 15th January, 2015 and with the Board of the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 13th January, 2015 to discuss proposals for rent levels in 2015/16 and the priorities in the HRA budget, including the capital programme.

6. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of items such as furniture and overnight support. The Cabinet resolved that service charges for furniture be increased by 1.2% in line with inflation and that service charges for overnight support in certain sheltered schemes be maintained at their current levels as a review of the service is currently taking place.

7. We also apply service charges to 344 properties in sheltered housing schemes in respect of heating and lighting. These charges vary according to the scheme and the size of the properties and may be offset against the winter fuel payment received by tenants, plus any cold weather payments. Housing Benefit will also cover these charges where applicable. The Cabinet resolved that these charges be increased by 1.2% to reflect general inflation.

8. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £24.26 per week is made. It also provides six units of accommodation for homeless people in Lye for which management charges and service charges are applied (a two-bedroom flat and five one-bedroom flats). There are three houses for which garden maintenance charges are made. The Cabinet resolved that all of these charges be increased by 1.2% in line with inflation.

9. The Council offers laundry tokens for sale for the use of tenants at five high rise blocks (two in Brierley Hill and three in Dudley). The Cabinet resolved that charges be increased from £2.20 to £2.30 per token.

10. The Cabinet resolved that pitch licences at Oak Lane be maintained at their current level, in line with general rents, and that weekly charging for water be increased by 1.2% to £6.32 per week.

11. The Council currently charges an administration fee of £2 per week to its leaseholders, to cover the costs of managing the properties. The Cabinet resolved to make no increase in the overall level of the fee as this currently covers the cost of the service.

12. The Cabinet resolved that the charge of £50 (plus VAT) per leasehold information pack, introduced from 1st January, 2015 to cover the costs of compiling information relating to the sale of council flats, be maintained at the current level.

13. The Council currently charges private residents who are in receipt of Telecare services (provision of an alarm service, and also stand alone equipment such as pill dispensing service and GPS tracking watches) £13.00 per month, and also charges Housing Association tenants varying amounts for this service. The Cabinet resolved to increase these charges by 1.2% to £13.10 per month from 1st April, 2015. Income generated will be used to increase investment in and development of the service.

<u>Garage rents, garage plots and access agreements</u>

14. It was agreed by the Cabinet in February 2008 that inflationary increases for garages, garage plots and access agreements be made every three years, with the next increase to take effect from 2017/18. The Cabinet therefore resolved that these rents and charges remain at current levels for 2015/16.

<u>Proposed HRA budget 2015/16</u>

15. The proposed HRA budget for 2015/16 (together with a proposed revised budget for 2014/15) is attached as **Appendix 1**. This budget is based on recent trends and our latest assessment of government policy on housing finance.

The key elements of the self-financing system that now operates in relation to local authority housing are:

- Abolition of the HRA Subsidy system and retention of all rental income.
- A one-off allocation of housing debt based on an affordability calculation.
- A cap on new borrowing above a set maximum level.
- Transfer of investment, borrowing and inflation risks to housing authorities.
- Continued compliance with central government rent policy.

16. The current budget for 2014/15 (approved by the Cabinet in October, 2014) shows a surplus on the HRA of £2.835m at 31st March, 2015. The proposed revised budget for 2014/15 shows a surplus at the same date of £0.074m. This variance reflects the redirection of additional savings on running costs and of general balances to support an increased Revenue Contribution to Capital Expenditure in 2014/15. This will support the capital programme and facilitate a planned acceleration of spending on major improvement works for existing stock. The balance of unapplied capital receipts will remain to support the planned new build programme and other major improvement works in future years. The revised budget also includes £0.170m in relation to transfers of land between the General Fund and the HRA, relating to Griffin Street, Holloway Hall Chambers and the former archives at Mount Pleasant (Roseville).

17. The proposed HRA budget for 2015/16 takes account of the proposed rent freeze on the 6th April, 2015 (paragraph 4).

18. The proposed HRA budget for 2015/16 includes a budget for housing management of £16.1m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management.

19. The proposed HRA budget for 2015/16 includes a budget for repairs and maintenance of £25.4m. This reflects:
    - Undertaking responsive repairs and routine void works;
    - Undertaking all required cyclical statutory responsibilities such as annual servicing of gas appliances, warden call equipment and alarms and periodic testing of water hygiene, lift servicing and inspections;
    - Maintaining the current level of cyclical maintenance such as painting of communal areas.

20. The proposed HRA budget for 2015/16 includes a budget for interest payments of £17.8m. This covers the payments that are due on the debt taken on as part of the self-financing settlement and additional borrowing under the Local Growth Fund.

<u>Public sector housing capital budget 2015/16 to 2019/20</u>

21. We must have a long-term rolling programme of investment to maintain the condition of council owned homes, to improve living standards and provide affordable homes for residents. A proposed £211m public sector capital budget for 2015/16 to 2019/20 and a revised budget for 2014/15 are attached as **Appendix 2.** Explanations of the budgets are attached as **Appendix 3**.

22. The proposed £211m rolling five year capital investment programme follows the general principles approved in the current programme and reflects the priorities of the Council Plan and the views of members and residents who participated in the Take Control and Get Involved Conference in October 2014. The impact of a rent freeze for 2015/16 as outlined in paragraph 4 has been addressed predominantly through slowing down existing investment programmes, although investment continues to target the following priorities:
    - Continuing investment to keep homes in good order by addressing investment in key building components such as roofs, electrics, kitchens and bathrooms;
    - Improving fuel poverty, energy efficiency and combating climate change;
    - Providing investment at affordable levels for communal facilities such as high rise lift replacement, community safety and environmental programmes, and social care programmes such as providing adaptations for persons with disabilities
    - Providing new social housing homes within the borough
    - Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation.

23. Whilst the detail of the proposed programmes is included within **Appendix 3,** notable stock investment over the five year period from 2015/16 to 2019/20 is as follows:

- Continued investment in Adaptations for persons with disabilities with £13.4m over the next five years maintaining waiting times at current levels and providing over 2,000 major adaptations (level access showers, stairlifts, vertical lifts and ramps) and around 6,500 minor adaptations such as handrails and grab rails;
- £17.1m investment over 5 years improving the efficiency of central heating and providing more affordable heating in 4,675 homes, helping to reduce fuel poverty;
- £6.7m investment in electrical installations, including £2.9m on upgrading high rise lifts;
- £23.3m over 5 years replacing windows and external doors with modern, energy efficient units, with all homes being fully double glazed by the end of the 5 year programme;
- £14.9m on replacement roofs;
- £4.7m on community improvements on estates;
- £11.2m over 5 years on 3,500 internal improvements such as plastering, replacement floors and kitchens and bathrooms;
- Undertaking £61.7m of improvements in empty properties to ensure that they can be re-let;
- £38.8m will continue to provide new council housing;
- £0.8m is also proposed to undertake necessary improvements over 3 years at the Leys Depot, Brierley Hill.

24. Approval is sought to continue discussions with government agencies such as the Homes and Communities Agency (HCA), Energy Service Providers and similar organisations and to bid for, enter into negotiations and / or seek tenders as appropriate to progress increasing resources to supplement the housing capital programme. This may be used, for example, to progress carbon saving and / or power generating schemes to improve fuel poverty across the borough. Resources may be sought under the Energy Company Obligations (ECO) or Renewable Heat Incentives (RHI) or any other energy based funding initiatives.

25. It is proposed that any additional resources obtained under paragraph 24 be added to the Capital Programme accordingly and the Strategic Director (Resources and Transformation) and the Strategic Director (Environment, Economy and Housing) be authorised to enter into any such grant or funding agreements that are necessary to deliver the schemes.

26. To ensure effective utilisation of all resources that become available, the Cabinet authorised the Strategic Director (Environment, Economy and Housing), in consultation with the Cabinet Member for Housing and Community Safety, to manage the five year programme so as to use all the resources that become available and commit expenditure to that amount and to report progress and actions to the Cabinet. In doing this, the Cabinet resolved to recommend the Council to confirm that all capital receipts

arising from the sale of HRA assets (other than those specifically committed to support private sector housing grants) continue to be used for the improvement of council homes.

27. To facilitate implementation of the programme, the Cabinet authorised the Strategic Director (Environment, Economy and Housing) to prepare specifications and undertake procurement in accordance with Standing Orders and Financial Regulations. The Cabinet also authorised the Strategic Director (Environment, Economy and Housing) to enter into and award contracts on their behalf.

<u>Medium Term Financial Strategy / Thirty Year Business Plan for Landlord Housing</u>

28. With the abolition of the HRA Subsidy system and the introduction of self-financing for housing authorities from April 2012, the Council now has an increased level of autonomy and flexibility regarding housing finance. The HRA budget is no longer dependent on annual Government settlements, although the rent increase will still be determined annually. It is therefore possible to set indicative budgets for a longer period and to develop a longer-term financial and business strategy.

29. Although the HRA enjoys some increased flexibility, the HRA ring-fence remains in force, and the Council is also expected to have regard to the Government's national rent policy. Under the self-financing settlement, Dudley has taken on a significant increase in housing debt, which must be serviced. The medium term financial strategy and thirty-year business plan is provided at **Appendix 4**, which sets out the context of the HRA for the next five years and summarises the overarching financial strategy and risks that will apply to the HRA over the longer term.

Finance

30. Section 76 of the Local Government and Housing Act 1989 places a duty on the Council to ensure that no action will be taken to cause a deficit to arise on the HRA at 31st March, 2016. There is also a duty placed on the Council to review the financial prospects of the HRA from time to time. Reviews carried out can confirm that the HRA will be in surplus at the 31st March, 2016 and therefore complies with the requirements of the Act.

Law

31. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing.

Equality Impact

32. Section 149 of the Equalities Act 2010 requires public authorities, including the Council, to

- eliminate unlawful discrimination, harassment and victimisation and other conduct that is prohibited by the Act.
- advance equality of opportunity between people who share a characteristic and those who don't.
- foster good relations between people who share a characteristic and those who don't.

The Duty covers the following protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure (e.g. capital expenditure on adaptations) are intended to promote independence and improve quality of life for protected groups.

Recommendations

33. It is recommended that the Council:

a) approve the revised HRA budget for 2014/15 and the HRA budget for 2015/16 outlined in Appendix 1;

b) approve the public sector housing revised capital budget for 2014/15 and the capital budget for 2015/16 to 2019/20 attached as Appendix 2;

c) authorise the Strategic Director (Environment, Economy and Housing) and the Strategic Director (Resources and Transformation) to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraphs 24 and 25 and approve that expenditure funded from such resources be added to the Capital Programme;

d) authorise the Strategic Director (Environment, Economy and Housing), in consultation with the Cabinet Member for Housing and Community Safety, to manage and allocate resources to the capital programme as outlined in paragraph 26;

e) confirm that all capital receipts arising from the sale of HRA assets (other than those specifically committed to support private sector housing) continue to be used for the improvement of council homes (paragraph 26);

f) endorse the HRA medium term financial strategy and thirty year business plan attached as Appendix 4.

…………………………
Leader of the Council

Appendix 1

Proposed HRA Budget

	2014/15 current budget Oct 2014 £000	2014/15 proposed revised budget £000	2015/16 proposed original budget £000
Income			
Dwelling rents	-89,892	-89,946	-89,281
Non-dwelling rents	-728	-728	-733
Charges for services and facilities	-245	-244	-244
Contributions towards expenditure	-225	-250	-300
Interest on balances	-20	-14	-1
Total income	**-91,110**	**-91,182**	**-90,559**
Expenditure			
Responsive and cyclical repairs	25,173	25,173	25,371
Management	15,278	14,933	16,128
Transfer to Major Repairs Reserve	22,176	22,176	22,457
Acquisition / Disposal of Land / Properties	0	170	0
Interest payable	17,760	17,760	17,764
Revenue contribution to capital expenditure	11,812	14,830	7,150
Discretionary Housing Payments	375	375	375
Other expenditure	1,314	1,304	1,248
Total expenditure	**93,888**	**96,721**	**90,493**
Surplus/deficit for the year	**2,778**	**5,539**	**-66**
Surplus brought forward	**-5,613**	**-5,613**	**-74**
Surplus carried forward	**-2,835**	**-74**	**-140**

Appendix 2

Proposed capital programme 2014/15 to 2019/20

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Adaptations	2,713	2,739	2,617	2,666	2,676	2,684
Central heating	4,031	4,093	3,205	3,264	3,277	3,286
Community Improvements	275	577	481	490	492	2,629
Electrical Installations	1,648	1,539	1,143	1,164	1,497	1,336
External Improvement Programme	8,758	9,321	6,890	7,626	7,660	6,805
Insulation	3,935	577	353	359	360	526
Minor Works	3,720	3,875	3,646	4,809	3,164	2,892
Internal Improvement Programme	3,429	2,414	2,170	2,211	2,220	2,191
New Council Housing	1,818	8,028	16,566	4,570	5,462	4,163
Tenants Association	66	62	62	64	64	65
Accommodation and Property	0	107	214	490	0	0
Void Property Improvements	12,891	13,482	11,863	12,065	12,124	12,159
Efficiency Saving	0	-375	-405	-405	-405	-405
Grand Total	**43,284**	**46,439**	**48,805**	**39,373**	**38,591**	**38,331**

Resources

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Borrowing	0	1,500	4,700	0	0	0
Major repairs reserve	22,319	22,457	22,744	23,029	23,475	23,804
Revenue contribution to capital	15,080	7,150	9,700	10,505	10,870	11,201
Usable capital receipts	4,869	15,162	12,170	6,361	4,781	3,872
Less usable capital receipts transferred to support private sector housing capital	-484	-496	-509	-522	-535	-546
Other (grants)	1,500	666	0	0	0	0
Grand Total	**43,284**	**46,439**	**48,805**	**39,373**	**38,591**	**38,331**

Appendix 3

Detail of the proposed provisional five year housing capital programme 2015/16 to 2019/20

Adaptations

At current levels of referrals the budget would maintain existing waiting times and would provide around 400 larger adaptations (level access showers, stair lifts, vertical lifts, ramps and a limited numbers of extensions and conversions) in each year. In addition the budget will provide for around 1,300 minor adaptations per annum for grab rails, handrails and the like. The budget for adaptations to void properties is maintained at around £100,000 per annum and will also assist in reducing waiting times and make best use of adapting suitable available properties.

£13.4m over 5 years

Central Heating

Improving energy efficiency and reducing fuel poverty is a major priority for the Council, with the added benefit of also reducing carbon emissions and addressing climate change. The Central Heating programme delivers new and improved central heating systems to Council owned homes, providing modern efficient heating to unheated homes and replacing inefficient and costly systems to ensure heating homes is as affordable as possible for tenants.

Around 4,300 homes over the 5 years will have a replacement boiler or system upgrade. An estimated 3,800 of these will be addressed in a programme that will replace older, more inefficient boilers and also install additional radiators to partially heated homes and the budget will also deal with an estimated 700 gas boilers and systems that cannot be repaired when they break down.

The electric night storage heating replacement programme for houses that already have a gas supply will be completed by the end of 2014/15, but there will be around 178 homes left that have refused gas heating and over 400 houses that do not have a gas supply. One-off storage heating systems that require replacement, or previous refusals, will be replaced with a modern gas system where possible.

Budgetary provision has been made to provide heating for all tenants in unheated homes who wish to receive heating, and for installing heating in all unheated properties when they become empty. Despite encouraging residents in unheated homes to have central heating installed, there are expected to be around 450 unheated homes in the borough at the end of March 2015 and it is estimated that due to continued tenant refusal around 75 homes will remain unheated at the end of the five year programme.

£17.1m over 5 years

Community Improvements

This programme continues the work commenced in previous years dealing with local environmental schemes and community safety schemes for improvements and refurbishment of Housing (HRA) assets.

The programme will continue to address local community safety and environmental projects with around £400,000 investment each year prioritised in consultation with the Housing Board.

Provision is also made to address improvements to communal entrances in flatted developments following major improvements such as lift and communal lighting works. A further provision of £2m is made in 2019/20 to address wider estate based improvements.

£4.7m over 5 years

Electrical Installations

The budget will continue to address electrical works in domestic dwellings and communal areas.

The programme of periodic electrical inspections will continue with necessary electrical works being undertaken to ensure that electrical installations do not fail the Decent Homes Standard. Around £1.2m is proposed to address necessary electrical works although the majority of homes, including empty properties, will only require partial electrical rewires and upgrades.

The programme will also continue with a £1.2m programme rewiring of communal areas in high and low rise flats and emergency wiring in low rise flats (over 3 stories).

Provision is also made to continue the programme of major upgrades and improvements to lifts in high rise flatted developments at Chapel St, with £2.9m of expenditure over the 5 years.

Over £1.4m budgetary provision is made over 5 years to continue a programme of door entry replacement and improvements in low rise flats, and upgrades to warden call equipment to allow the provision of the essential Homecall service for vulnerable residents of the community.

£6.7m over 5 years

External Improvement Programme

The programme continues to address necessary improvements and planned maintenance to the external façade of Council owned homes, predominantly replacement windows and re-roofing.

Over the five years the budget will fund a £22m programme replacing an estimated 10,000 windows each year with modern double glazed windows, and £1.3m replacing external doors that are in significant need of replacement.

Over 5 years £15m is proposed to be invested in re-roofing homes to ensure that they remain sound and watertight. This work is either replacement of roof coverings such as tiles or slates and/or replacement and/or upgrade of the structural timbers as necessary. The budget will also continue work on a planned programme to replace flat roof coverings on flatted developments with modern energy efficient materials. The budget will also be used for planned improvement works associated with roofing such as fascias and soffits.

£38.3m over 5 years

Insulation and Energy Efficiency

The programme predominantly provides resources for measures of draught stripping, increased levels of loft insulation and other targeted carbon emission and energy efficiency programmes. Works will improve the SAP (Standard Assessment Procedure) rating of the housing stock (which measures how energy efficient the housing stock is) and improve fuel poverty by reducing energy bills.

Over £1.5m has also been made to address external re-rendering with insulated materials from 2015/16 onwards.

This programme will be supplemented by any Government agency or Energy Service Providers' funding that can be secured by Dudley under ECO (Energy Company Obligations) or other such 'green deal' opportunities.

Total budget: £2.2m over the 5 years 2015/16 to 2019/20, plus any additional energy related resources received.

Internal Improvements

This programme is proposed to continue to address necessary internal improvements to homes, prioritising those properties where the kitchen and bathrooms fall into non-decency due to their age and where they are also in poor condition. Necessary re-plastering and replacement floors will also be undertaken. Each year around 700 internal improvements will be carried out.

£11.2m over 5 years

Minor Works

This budget is used to deal with structural and urgent repairs, and health and safety issues that arise throughout the year. Works already identified include dealing with:

- Works arising from Fire Risk Assessments to flatted developments, with a programme commencing of upgrading fire doors to low rise flats;
- Repairs to common areas such as paving and paths;

- Dwelling related structural, subsidence and demolition works;
- Works that are required as a result of high rise structural inspections and periodic surveys to flatted developments (structural repairs, balconies);
- Refuse chute replacement to flatted developments.
- Improvements to sheltered accommodation

£18.4m over 5 years

New Build

October 29th Cabinet approved £40.6m expenditure on a number of new build schemes and the capital programme remains unchanged. Schemes already commenced and on site include:

- Norfolk Rd, Wollaston and The Walk, Sedgley (14 apartments suitable for persons with livening disabilities and 3 two bedroom houses) ,
- The conversion of the former Wrens Nest Estate Office into 2 1 bedroom apartments
- The conversion of Holloway Chambers, Dudley into 2 1 bedroom town centre apartments.

Planning permission has been applied for the conversion of Arcal Lodge Sedgley into 8 bungalows and 6 apartments, and for the conversion of the former archives at Roseville into 15 two storey houses / apartments and a new build 3 bedroom detached house, with works due to commence in 2015.

Feasibility and design work is ongoing for other projects, notably:

- the former Guest Hospital, Dudley
- Middlepark Road, Russells Hall;
- a number of smaller housing infill and garage sites across the borough including the redevelopment of 14 to 24 Beech Road, Kingswinford

£38.8m over 5 years, based on estimated capital receipts

Tenant and Residents' Association

The budget is allocated in each of the five years to community improvement schemes identified by Tenants' and Residents' Associations, and prioritised in consultation with the Dudley Federation of Tenants' and Residents' Associations. Budgets are expected to fund around 40 projects each year.

£0.3m over 5 years

Void Property Improvements

This budget is used to fund improvement works to empty properties where the work is of a capital nature to ensure that they are re-let in a reasonable state of repair and have modern facilities for kitchens and bathrooms in accordance with the Decent Homes Standard.

£61.7m over 5 years

Accommodation and Property

A provision of £810,000 over 3 years is proposed to undertake necessary roof and structural improvements at the Leys Depot, Brierley Hill. Whilst the extent and nature of the works is yet to be fully ascertained, most expenditure is planned in 2017/18.

£0.8m provision over 3 years

Appendix 4

Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) and Thirty Year Business Planning Strategy for Landlord Housing

Purpose

1. The Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) has set out how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties. It relates specifically to the Housing Revenue Account (HRA) and the capital programme for improvement of the Council's own housing stock.

2. The MTFS(LH) should be read in conjunction with the Council's overall Medium Term Financial Strategy (MTFS). The underlying principles set out in the overall document apply equally to the MTFS(LH).

3. In the context of the introduction of Self-Financing for public sector housing, the abolition of the HRA subsidy system, the increased autonomy and flexibility that housing authorities will have to manage their stock and, in Dudley's case, the increased debt taken on, a Thirty Year Business Plan is being developed. This will take into account issues including investment need, treasury management strategy, financial projections and tenants' engagement.

Background

4. The previous financial strategy for landlord housing focussed on the period up to 2010/11 and was determined through the Housing Stock Options Appraisal. This was a year-long consultation process involving a range of stakeholders and culminated in a decision by the Council in April 2005. The key elements of this financial strategy were:

   - delivery of the Government's Decent Homes Standard by 2010 and maintenance of that standard in later years;
   - support to the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
   - identifying ongoing savings and efficiency gains, through the use of partnerships where appropriate;
   - the prudent management of reserves and other balances;
   - compliance with government policy on rent restructuring;
   - honouring the outcome of the Housing Stock Options Appraisal and the view of the majority of tenants and other stakeholders that the housing stock should remain under direct council control.

5. This strategy showed that, on the basis of financial trends and government policy known at the time, it would be possible to deliver the Decent Homes

Standard and other priorities for council housing by 2010, and this was achieved on time.

6. The new financial strategy for landlord housing takes into account the delivery of the Decent Homes Standard and the new opportunities and challenges arising from the introduction of the self-financing system. This is the subject of an ongoing consultation process that includes tenants and residents. The key elements of this new financial strategy, which will cover a rolling five year period, are:

- maintain the Decent Homes Standard;
- Improve the energy efficiency of the housing stock and address fuel poverty;
- invest in housing stock and minimise the number of void properties;
- review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
- support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
- identify ongoing savings and efficiency gains, through the use of partnerships where appropriate;
- continue to undertake prudent management of reserves and other balances;
- have regard to government rent policy for social housing.

The proposed budget 2015/16 and the MTFS(LH)

7. The Decent Homes Standard was delivered by the end of 2010. Resources remain to be required to maintain this standard, and deal with properties where the age of the fittings mean that a replacement is required, and non-decent properties as they become void. The rolling five-year capital programme includes resources to maintain the Decent Homes Standard.

8. A new stock condition survey was commissioned and undertaken during late 2013 to validate and support existing stock investment information. The detailed output of this is being evaluated, but has initially identified a five year investment need to 2018/19 of circa £200m and a 30 year capital investment of circa £750m. In addition there is an estimated demand for around £600m over 30 years required to address ongoing responsive repairs, statutory servicing (e.g. gas appliances) and cyclical maintenance. Further work is ongoing to develop a more detailed 5 and 30 year financial plans that will also consider the financial implications and need delivering other wider housing issues in addition to basic stock ‘bricks and mortar‘ investment such as new build housing, conversions, adapting properties for vulnerable persons and persons with disabilities and estate based improvements to ensure sustainable communities are maintained together with other contingent major repairs. .

9. This forecast has been based on recent financial trends and our current assessment of the Government's housing finance policy and, like any forecast, should be regarded with caution (risks to the forecast are considered later). In view of our commitment to stock retention and maintenance of the Decent Homes Standard, it is proposed that we continue when necessary to give consideration to the following:

- ongoing review of spending and resource forecasts;
- further efficiency and other savings, including those achievable from use of partnerships;
- addition to and replacement of the housing stock via new build programmes;
- the level of housing debt;
- service charges[1].

10. The volume of responsive repairs has generally decreased since the back-log of routine repairs was eliminated in recent years. The increase in capital investment over the last few years together with efficiencies in the way repairs and capital works are delivered have resulted in significant cost savings.

11. A proposed rolling five-year capital programme has been developed as a continuation of the existing programme to maintain current standards and improvements following the achievement of the Decent Homes standard.

12. Resources have been identified to continue the new council house programme, with £40.6m identified up to 2019/20 from estimated Right to Buy One for One replacement capital receipts, Local Growth Fund approved borrowing and HRA resources. Right to Buy expenditure targets forecast £3.3m expenditure by March 2016, a further £7.4m by March 2017 and £5.4m by March 2018. Resources have been allocated to future years assuming that government rules will continue as they are currently. Local Growth Fund schemes are to be committed to new housing by March 2017.

13. The table below summarises the 30 year financial business plan (based on the PriceWaterhouse Coopers self-financing 30 year model, and detailed in the HRA Estimates 2014-15 detailed 30 year financial plan). This is updated annually and will take into account changes in policy. It reflects our current approach of stock retention, maintenance of the Decent Homes Standard, investment in the maintenance and improvement of our stock, and regard to national rent policy.

[1] Government subsidy calculations assume charges over and above the rent for special services to flats and for supported housing – the HRA is financially disadvantaged as a result of not applying these charges.

	Years 1 -5	Years 6 - 10	Years 11 - 15	Years 16 - 20	Years 21 - 25	Years 26 - 30
	£m	£m	£m	£m	£m	£m
Income						
Dwelling rents	-461,182	-506,049	-558,719	-616,871	-681,075	-751,962
Other	-6,508	-7,011	-7,741	-8,546	-9,436	-10,418
Total Income	-467,690	-513,060	-566,460	-625,417	-690,511	-762,380
Expenditure						
Management and maintenance (net of retained surpluses)	213,945	233,290	257,325	284,267	313,835	346,610
Depreciation and transfer to Major Repairs Reserve	115,487	126,317	139,464	153,980	170,006	187,700
Revenue Contributions to Capital / Debt Repayment	48,576	61,400	76,300	93,800	113,300	134,700
Interest Payments	89,682	92,052	93,370	93,370	93,370	93,370
Total Expenditure	467,690	513,060	566,459	625,417	690,511	762,380
Balance	0	0	0	0	0	0

Risks to the financial forecast

14. The main risks to the financial forecast are considered below:

Risk	Impact
Inflation higher than forecast	While increased inflation has an impact on costs, in the case of the HRA, it also affects resources, through the rent increase applied. If cost inflation is lower than general inflation as used to determine the rent increase, this will have a positive budgetary impact. However, if cost inflation is higher than general inflation as used to determine the rent increase, this will have a negative budgetary impact.

Income levels not achieved	<u>Rent loss from void properties</u> We have seen over recent years an increase in void properties owing mainly to greater tenant mobility and this has resulted in an increased rent loss of up to 3% of total rent available, although this is now starting to reduce as the impact of recent investment in void property works is beginning to have an effect. We are however seeing an increase in the number of hard-to-let properties, for instance two-bedroom high rise flats and some three-bedroom houses. We have allowed in our forecasts for a rent loss of 2.7% of total rent available. The cost for each 1% void loss is around £1m per annum. <u>Rent loss from non-payment of arrears</u> As part of the Government's proposed welfare reforms, it is proposed that many tenants will in future start to receive Universal Credit direct and will therefore be responsible for paying their own rent. Currently, tenants in receipt of benefit have their rent paid as a transfer from Benefits. This is likely to lead to an increase in arrears and potentially in bad debts. Around 2,600 tenants of working age in receipt of benefits have already been affected by benefit restrictions from April 2013 as they were deemed to be under-occupying their property. We estimate that around £1.8m rent, which was previously paid directly via Benefits, is now being collected from tenants as a result of the new underoccupancy rules. We have seen an increase in arrears during 2013/14 and 2014/15. The impact of Universal Credit on rent collection rates is difficult to assess at this stage, but initial estimates from the pilot projects suggest that the collection rate may fall from the current 98% to

	80% - 90%. The management cost of collecting rents is also expected to rise as more payments are made direct by tenants rather than via transfer from the Benefits system. There have been a number of delays to the Universal Credit programme, with only a small number of claimants, very few of whom currently have housing needs, having been transferred to the new system. Dudley is in the first tranche of the next roll-out of Universal Credit to new, single claimants nationally, starting in March 2015. This will include claimants with housing needs, but as yet will not include any existing claimants, couples or families. It is therefore expected that numbers will be fairly low at least for the first few months. At the moment the timescale for transfer of more claimants remains uncertain, as does the government's approach to the ICT systems that will be adopted when Universal Credit is rolled out more widely than the current pilot schemes.
Change in rent policy	The national formula setting / advising the maximum rent increase for social landlords is now September CPI plus 1%. "Convergence" has also ended from 2014/15 i.e. one year early, and more flexibility is available for social landlords around charging market rents for more affluent tenants. A rent increase of less than the national formula – as we are proposing for this year - means that our annual resources for management, maintenance, interest payments and improvement / new build works will be lower than originally forecast. We have carefully considered the impact of the proposed rent freeze both on the 2015/16 and on future years' budgets and are confident that this is affordable in the context of our longer term financial planning. This will also benefit our tenants, particularly those who are working and not eligible for full housing benefit.

	Recent government guidance on the changes to social rent policy makes it clear that while housing associations are expected to comply with the policy, housing authorities are expected to have regard to it.
Interest rates higher than forecast	Our debt on housing properties is around £464m following the introduction of self-financing. Hence, interest rate risk is much more significant than it was under the subsidy system. Risk will be mitigated by borrowing at fixed rates and spreading repayment dates to minimise refinancing risk.
Reduction in property values in the borough	Any reduction in property values will reduce the value of usable capital receipts.
Reduction in land sales and capital receipts	We have seen as a result of the general economic situation a diminution in the value received for sale of housing land. We also expect that with a new council house building programme we are likely to be disposing of fewer housing sites. A specific risk applies in relation to £700k of the anticipated receipt for North Priory which is payable as Kickstart grant by the Homes and Communities Agency (HCA) to our developer partners on the successful completion of Phase 1 of the project. This will then be passed on to the Council. We are actively monitoring our developer partners' progress in claiming this grant.
Reinvigoration of Right to Buy	The Government has increased the cap on Right to Buy (RTB) discount from £26,000 to £77,000 per property, and in future years this will continue to increase by inflation annually. The maximum discount for houses has also been increased during 2014/15 from 60% to 70%. The changes have already resulted in increased sales during the last quarter of 2012/13 and in 2013/14. However, because the value of the maximum discount has increased and there has been a

	reduction in the average value of the properties sold, increased sales will not necessarily result in a proportionally greater value of capital receipt income. We are starting to see from the autumn of 2014 a slowing down of Right to Buy completions, which may be connected to the more stringent rules that mortgage lenders are applying. As yet, it is to early to tell whether this will continue. New regulations have replaced the capital receipts pooling arrangements and require councils to build replacement homes for all extra homes sold under Right to Buy. The current arrangements apply up to and including 2016/17.There is a risk to future new build investment should funding arrangements change to our disadvantage from 2017/18.
Suitability of stock	Some of our stock is old and nor particularly suited to modern styles of living. In addition, changes to the benefit system mean that some of our properties are less attractive than they were previously (e.g. two-bed high rise flats or three-bed maisonettes). We are already experiencing difficulty in letting such properties, which will lead to a loss in rental income and also potentially an increase in security costs and an increase in anti-social behaviour.
Availability of borrowing	The HRA is currently at the government's borrowing cap, so all capital expenditure on housing stock must be funded from annual revenue (mainly dwelling rent income) or capital receipts from house or land sales. Our strategy is to invest our annual rental income into maintaining and improving our stock, and building new homes as resources permit. In the short to medium term we are not planning to repay any debt, as our priority is improving and extending our stock. However, this restricts the size of any redevelopment / new build scheme as we are not able under current rules to borrow on the strength of future rental income. We have been successful in our bid under the Local Growth Fund to increase our borrowing cap

	by £1.5m in 2015/16 and a further £4.7m in 2016/17, which will contribute to our new build programme. However, this has set us another challenging target for new build and, like the Right to Buy replacement target, also requires a contribution from other HRA resources.
Unforeseen costs or costs greater than estimated	Any unbudgeted costs would have to be met from economies or reductions in planned spending in the year in which they arise or from any balances available in that year. Calculations indicate that any costs to the HRA arising from Single Status can be met within proposed budgets. We anticipate that any Equal Pay settlement costs would be capitalised through a government dispensation.

Prudential indicators

15. The Local Government Act 2003 introduced a system of “prudential borrowing” which allows councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code which specifically requires us to set a number of prudential indicators. The full range of prudential indicators are to be set as part of another report on this agenda. Those indicators that relate to HRA capital expenditure are set out below:

	Latest budget 2014/15	**Forecast 2015/16**	**Forecast 2016/17**	**Forecast 2017/18**
Ratio of financing costs to net revenue stream: HRA	43.8%	44.4%	44.2%	43.9%
Estimated incremental impact of capital investment decisions on HRA weekly rents	N/A	N/A	N/A	N/A
Capital expenditure: HRA	£43.3m	£46.4m	£48.8m	£39.4m
Capital Financing Requirement: HRA	£464.1m	£465.6m	£470.3m	£470.3m

16. The ratio of financing costs to net revenue stream shows the costs of servicing housing debt as a percentage of total HRA income. This is a measure of the affordability of debt.

17. The forecast debt charges resulting from anticipated borrowing are fully reflected in the Housing Revenue Account budget at Appendix 1 of the report.

18. The HRA Capital Financing Requirement is a measure of the share of the Council's overall portfolio of debt and investments that results from public sector housing capital expenditure. The limit on the HRA CFR imposed on implementation of self-financing is £464.1m. Additional borrowing under the Local Growth Fund is available in 2015/6 and 2016/17 and this will increase the HRA CFR limit. The debt charges resulting from this new borrowing will be funded by the rental stream from the additional homes provided.

<u>Partnerships</u>

19. Housing Services is continuing to deliver on its partnership working and currently has a number of such arrangements, for example:

   - Funding partnerships with energy service providers to increase resources under the Government's ECO (Energy Company Obligations) - which replaced CESP from spring 2013 - to deliver energy efficient whole house measures to combat climate change and CO_2 emissions in Council Homes.
   - Strategic partnerships that are being delivered in accordance with the principles of Sir John Egan's report 'Rethinking Construction'. Through innovative payment mechanisms, incentivising good performance and modern methods of collaborative working, partnerships are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock (e.g. gas servicing, maintenance and repairs).
   - A strategic partner is also planned to assist in the delivery of new build homes and procurement work has commenced.

20. Procurement consortia (e.g. the LHC Framework) and other partnership arrangements will also continue to be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.

Note:

It is important to note that the Treasury Strategy Statement is adopted by the Council, based upon advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

Meeting of the Council – 23rd February 2015

Report of the Audit and Standards Committee

Treasury Management

Purpose of Report

1. The purpose of this report is:

   - to outline treasury activity in the year 2014/15 up to the end of December;
   - to seek approval of the Treasury Strategy Statement 2015/16

Background

2. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks

3. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund (WMDAF). We are responsible for administering capital funding of £755m on our own account and another £170m on behalf of other West Midlands councils in respect of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

4. Our borrowing and investment activities in the current year have been undertaken in the context of historically low interest rates. The Bank Rate has remained at 0.5% since March 2009 and is likely to remain at this rate into 2015-16 and rise gradually in the second half of 2015-16.

Treasury Activity 2014/15 - Dudley fund

5. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2014/15 approved by Audit Committee and Full Council in February 2014. In that document we anticipated that long term borrowing would be required in the next 12 months due to cashflow need.

6. Our investments up to early January have averaged £14.64 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.73% (excluding the long term investment with Salford City Council, the average return was 0.38%). All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2014/15. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. The average 7-day LIBID[1] for the year to the end of December has been 0.43%. Our investment activity for 2014/15 (to date) is set out in more detail in **Appendix 1**.

7. The returns outlined above have been achieved without compromising on the security of the Council's investments. We have maintained and continue to maintain an approved investment list that sets the highest rating standards. We have an account with the Government's Debt Management Office which provides maximum security but low returns. We are only using this account where we cannot place funds with a bank that meets our strict criteria. The majority of short-term investments are in variable rate call accounts with approved counterparties, which offer a relatively good rate of return compared to fixed term deposit accounts as well as greater liquidity.

8. The average value of long-term borrowings up to the end of December 2014 was £535.2 million. The average rate of interest on these borrowings was 4.09% and they were due to mature on dates ranging from the current year to 2061.

9. The rate for a 50-year loan from the Public Works Loan Board (PWLB) has fluctuated during 2014-15 from 3.46% to 4.48% and was standing at 3.46% in early January. The Council is eligible to apply for certainty rates at 0.2% below these rates, introduced in 2012, for local authorities who provided the required information on their plans for long-term borrowing and associated capital spending. In addition the "Project Rate" which is set at 0.4% below standard rate, is available for approved single projects identified by Local Enterprise Partnerships (LEPs).

10. It has not as yet been necessary to undertake any new long-term borrowing due to favourable cash flow, but we are monitoring interest rates and cash flow closely. Medium term cash flow forecasts indicate an underlying requirement to borrow in 2015-16.

11. The Council has used short term borrowing on 22 occasions in the year to date to manage daily cash flow. The average value of the borrowing has been for £3.8m at an average rate of 0.40% for an average duration of 11 days. Daily cash balances have been mainly managed through the use of call accounts.

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[1] 7-day LIBID is a measure of the average return from a 7-day investment on the London money market.

Treasury activity 2014/15 - WMDAF

12. Having consulted with our advisors at Arlingclose, we did not identify any opportunities to improve our position by restructuring of debt. The Council has used short term borrowing on 4 occasions in the year to date to manage daily cash flow for the WMADF. The average value of the borrowing has been £2.5m at an average rate of 0.44% for an average duration of 73 days. The latest estimate of interest payable by members of the WMDAF in 2014/15 is 6.4%.

Review of Investment Strategy

13. The Treasury Management Report to the Audit and Standards Committee in September 2014 detailed amendments to the 2014-15 Investment Strategy which were made as a result of the Financial Services (Banking Reform) Act 2013. The legislation restricts the level of financial assistance that the UK Government can provide to a bank which gets into financial trouble, and in a serious failure there is a risk that a local authority could lose some or all of its investments with a failing institution (but this is very unlikely for a bank of very high credit quality). In order to mitigate this slightly increased risk, the amendments to the 2014-15 investment strategy essentially tightened up the Council's criteria for making investments. These amendments have been incorporated into the Treasury Strategy Statement 2015/16.

Treasury Strategy Statement 2015/16

14. The Treasury Strategy Statement covers our latest capital funding requirements, our view of interest rate movements and our strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The proposed Treasury Strategy Statement for 2015/16 is attached as **Appendix 2.**

15. Our expectations for interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB rates are generally about 1% above Government gilts while certainty rates are about 0.8% above gilts):

- **Short-term rates**. The Bank Rate will remain at 0.5% through 2014/15 and probably until the third quarter of 2015/16, rising very gradually thereafter
- **Long-term rates**. 20-year Government gilt rates will rise in 2015/16 from 2.95% to 3.20%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2014/15 from 3.05% to 3.25%

16. The Local Government Act 2003 introduced a system of "prudential borrowing" allowing councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code which specifically requires us to set a number of prudential indicators. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

Local Government Association Bond Agency

17. The Local Capital Finance Company was established in 2014 by the Local Government Association (LGA) as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. The complexities associated with this source of borrowing, make it currently unsuitable for the Council anticipated borrowing needs for 2015-16 (paragraph 9.5 of Appendix 2)

Public Works Loans Board

18. The Department of Communities and Local Government has now confirmed that HM Treasury (HMT) are taking the steps to abolish the Public Works Loan Board (PWLB) in the coming months. HMT have stressed that this is purely to address the governance of the PWLB and that it will have no impact on existing loans or the government's policy on local authority borrowing. HMT has confirmed that its lending function will continue unaffected albeit under a different body so that local authorities will continue to access borrowing at rates which offer 'good value for money'.

Whilst it is not yet clear what the new governance arrangements will be, a consultation on the restructure is due out shortly.

19. In order to protect the Council's position if an individual or organisation were to act upon the views expressed in this report, we have deemed it necessary to produce a disclaimer which is shown as a note at the head of the report and **Appendix 2**.

20. The Audit and Standards Committee at its meeting held on 10th February, 2015, considered this matter and agreed the recommendations set out in paragraph 24 below.

Finance

21. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates.

Law

22. The Council has adopted CIPFA's Treasury Management in the Public Services : Code of Practice 2011 which requires the Council to approve a treasury management strategy before the start of the financial year and provide a mid-year update on treasury management activity. In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in 2010 that required the Council to approve an investment strategy before the start of each financial year. This report fulfils the legal obligation under the Local Government 2003 to have regard to both the CIPFA code and the DCLG guidance.

Equality Impact

23. The treasury management activities considered in this report have no direct impact on issues of equality.

Recommendation

24. That the Council:

- notes the treasury activities in 2014/15 outlined in this report;
- approves the Treasury Strategy 2015/16 attached as Appendix 2;
- authorises the Chief Officer (Finance and Legal Services) to effect such borrowings, repayments and investments as are appropriate and consistent with the approved Treasury Strategy and relevant guidance;

………………………………..............………..
Chair of the Audit and Standards Committee

Appendix 1

Investment Activity 2014/15 to 5th January 2015

Counterparty name	**Number of investments**	**Average value £ million**	**Average rate %**	**Average duration (days)**
Barclays Treasury Direct	5	1.13	0.33	16
Barclays	1	0.39	0.28	22
Debt Management Office	16	1.52	0.25	8
Nationwide Building Society	1	0.51	0.42	31
Bank of Scotland Call Account	NA	4.08	0.40	Call
Santander Call Account	NA	4.19	0.40	Call
HSBC Call Account	NA	2.31	0.32	Call
Salford City Council *	1	0.5	11.25	Matures in 2020

The table above includes investments that commenced during 2013/14 and were due to mature in the current financial year.

* This is a fixed term deposit that was made in 1985 and is due to mature in 2020.

Note:
It is important to note that the Treasury Strategy Statement is adopted by the Council, based on advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

DUDLEY METROPOLITAN BOROUGH COUNCIL
TREASURY STRATEGY STATEMENT 2015/16

1.0 Introduction

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2015/16. The suggested strategy is based upon officers' views of interest rates as advised by external advisors, supplemented with leading market forecasts. It should be noted that the use of expert external advisors does not remove the responsibility of Members and officers for treasury management functions and that those functions cannot be delegated to any outside organisation. The strategy covers:

- the current portfolio position
- prudential and treasury indicators
- prospects for interest rates
- temporary investment strategy
- requirements and strategy for long-term borrowing
- debt rescheduling and premature repayment opportunities
- treasury implications of HRA Self Financing

2.0 Current Portfolio Position

2.1 The Council's estimated debt position as at 1st April 2015 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	534.0
- PWLB variable rate	13.0
- Market fixed rate	6.8
- Market LOBO2	10.0
Short-term debt	11.0
Total debt	**574.8**

2.2 The average rate of interest on the above debt is expected to be 3.97%.

2 Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2009 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

2.3 The average level of investments held by the Council during 2014/15 to early January 2015 was £14.64m. Cash flow monitoring indicates that long term borrowing may be required in the next 12 months.

2.4 The Council also administers the debt of the former West Midlands County Council on behalf of the West Midlands districts. The estimated debt position at 1st April 2015 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	162.6
- Market fixed rate	6.8
- Market LOBO3	10.0
Short-term debt	0.0
Total debt	**179.3**

2.5 The average rate of interest charged to the West Midlands fund is expected to be 6.4%.

3.0 Prudential & Treasury Indicators

3.1 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The Prudential Code sets out a number of indicators that enable the authority to assess affordability and prudence. The following indicators are relevant for the purposes of setting an integrated treasury management strategy.

3.2 Treasury Indicators in the Prudential Code

3.3 The Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily on occasions due to variation in cash flow.

These external debt indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. It has been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. The operational boundary for external debt has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant. Actual external debt represents the closing balance for borrowing and other long-term liabilities.

	2013/14	2014/15 Revised	2015/16 Revised	2016/17 Revised	2017/18
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	904	893	882	860
Other long term liabilities	n/a	37	43	36	30
Total	n/a	**941**	**936**	**918**	**890**
Operational boundary:					
Borrowing	n/a	775	796	800	801
other long term liabilities	n/a	37	43	36	30
Total	n/a	**812**	**839**	**836**	**831**
Actual External Debt:					
Borrowing	735.9	n/a	n/a	n/a	n/a
Other long term liabilities	32.1	n/a	n/a	n/a	n/a
Total	**768.0**	**n/a**	**n/a**	**n/a**	**n/a**

Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Council has met this requirement in 2014/15, and expects to do so in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3.4 Treasury Indicators in the Treasury Management Code

CIPFA Code of Practice for Treasury Management in the Public Services

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Interest rate exposures

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments.

	2014/15	**2015/16**	**2016/17**	**2017/18**
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	10	10	10	10

Maturity structure of borrowing and investments

The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

	Upper Limit %	**Lower Limit %**
Under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

Upper Limit for total principal sums invested over 364 days

The purpose of the limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is £10m.

4.0 Economic Background

4.1 There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that the growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansions of Gross Domestic Product (GDP). However, inflationary pressure is benign and is likely to remain low in the short-term, partly due to recent large falls in the oil price. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak.

4.2 The Monetary Policy Committee's (MPC) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings between August and December 2014, the minutes of the January 2015 meeting showed unanimity in maintaining the bank rate at 0.5% as there was sufficient risk that low inflation could become entrenched and the MPC became more concerned about the economic outlook.

5.0 Credit outlook

5.1 The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

5.2 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

6.0 Prospects for Interest Rates:

6.1 The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term (see below).

6.2 Our expectations of interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB rates are generally about 1% above government gilts, whilst certainty rates are about 0.8% above gilts) :

- **Short-term rates**. The Bank Rate will remain at 0.5% through 2014/15 and probably until the third quarter of 2015/16, rising very gradually thereafter
- **Long-term rates**. 20-year Government gilt rates will rise in 2015/16 from 2.95% to 3.20%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2014/15 from 3.05% to 3.25%

6.3 Our overall strategy will be based on the projections above. However, we will maintain flexibility to take account of unexpected variations from our forecast.

7.0 Annual Investment Strategy

7.1 Our investment activities are subject to government guidance issued under Section 15(1) (a) of the Local Government Act 2003. This section of the Treasury Strategy Statement constitutes an "Annual Investment Strategy" produced in accordance with the guidance.

7.2 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. We have a policy of keeping cash balances at minimum levels by maximising the use of internal borrowing to finance capital expenditure. In the current financial year, the Authority's cash balance has ranged between a high of £35m in May to a deficit of £26m in December. This is substantially lower than last year when the balance ranged from a high of £84m to a low of zero in the same period. This is partly as a result of electing to pay employer's superannuation contributions in single annual instalment in exchange for a reduction in those contributions. Based on seasonal trends, the level of investments (and therefore the risk) is likely to be significantly lower for the rest of this financial year and into next year.

7.3 In accordance with Investment Guidance issued by the Department of Communities and Local Government (DCLG) and best practice the Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yields earned on investments is important but are secondary considerations.

7.4 *Strategy for "specified investments*"

7.4.1 The Council will make use of specified investments (as defined within the terms of the government guidance). These are investments that satisfy the following conditions:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
b) The Council may require that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
c) The making of the investment is not defined as capital expenditure by legislation
d) The investment satisfies either of the following conditions:

I. The investment is made with the UK government, a local authority, a parish council or a community council. or
II. The investment is made with a body or in an investment scheme of high credit quality

7.4.2 For the purpose of this strategy a body or investment scheme is deemed to be of high credit quality if it has minimum short-term ratings of F1 (Fitch), P1 (Moody's), and A1 (Standard and Poors).

7.4.3 In order to reduce risk of loss from a bank default, the Council has also applied the following criteria for investments :

- Investments of a maximum duration of 3 months are permitted with UK institutions which have the highest short term credit rating from all three main credit rating agencies i.e. F1+ (Fitch), A1+ (Standard & Poors), P1 (Moody's)

- Investments of a maximum duration of 1 month are permitted with UK institutions with a minimum short term credit rating of F1 (Fitch), A1 (Standard & Poors), and P1 (Moody's).

7.4.4 Since the financial crisis of 2008, the Council has not allowed investments in non-UK institutions. The existing strategy is based on the implicit assumption that the UK Government would support a failing UK bank. This factor is less relevant in light of the Financial Services (Banking Reform) Act 2013 and proposed regulations. That said, current cash flow predictions do not suggest that there is any compelling need to widen the investment strategy to non-UK institutions and so there is no proposal to change.

7.4.5 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria

7.4.6 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

7.4.7 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

7.4.8 If conditions in the financial markets worsen during 2015-16 or other factors indicate that increased security of Council funds is required, the Chief Officer Finance and Legal Services may impose tighter restrictions on the type of investments and institutions used by the Council, than those detailed in this strategy.

7.4.9 The Council banks with HSBC. At the current time, it does meet the minimum credit criteria and has the highest credit rating for a UK bank. Even if the credit rating falls below the Council's minimum criteria HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

7.5 *Strategy for "non-specified investments"*

7.5.1 Non-specified investments are those that do not meet the criteria for a specified investment detailed in 7.4.1 above. The Council does not intend to make any investments denominated in foreign currencies, or any that are defined as capital expenditure by legislation such as company shares. Neither is there an intention to make new long term investments, especially in the light of maximising the length of any investment to 3 months irrespective of its credit quality. Therefore the Council will not place its funds with non-specified investments.

7.6 Liquidity of investments

7.6.1 In determining the maximum period for which investments may be held, we will have regard to our most recent cash-flow forecast. We will not enter into an investment where our cash-flow forecast indicates that, as a result of that investment, we would be forced to borrow money at a later date that we would not otherwise have had to borrow.

7.6.2 The criteria for investments detailed in 7.4.3 will ensure that investments are not made for periods exceeding 3 months thereby ensuring that the Council's cash is readily available for day to day operations, as well as reducing the risk of capital loss.

7.7 Limit on investments with a single institution

7.7.1 In order to limit the Council's exposure to a single default, investments with a single institution or group of banks **should not exceed £5million** at any time. This limit also applies to other local authorities but not to the Debt Management Office which has no upper limit as investments with the UK Government are deemed to be at the lowest level of risk.

8.0 Policy on the Use of Financial Derivatives

8.1 A financial derivative is a contract whose value is based on, or "derived" from, an underlying financial instrument such as a loan. Local authorities have previously been able to make use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

8.2 The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

8.3 The Council does not intend to use standalone financial derivatives (such as swaps, forwards, futures and options). Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but no change in strategy will be made without full Council approval.

9.0 Requirements and Strategy for Long-Term Borrowing

9.1 The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity.

9.2 Our interest rate expectations (outlined in 6.2) provide a variety of options:

- that short-term variable rates will be good value compared to long-term rates, and are likely to remain so for potentially at least the next couple of years. Best value will therefore be achieved by borrowing short term at variable rates in order to minimise borrowing costs in the short term.

- that the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2015/16, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

9.3 Against this background caution will be adopted with the 2015/16 treasury operations. The Chief Officer Finance and Legal Services will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. In conjunction with the treasury advisers, we will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to growth rates remaining low or weakening, then long term borrowings will be postponed

9.4 With respect to the West Midlands Debt, variances due to timing differences b etween the maturity profile of the debt and repayments from authorities can be managed by short term borrowing in 2015-16. As a result, we do not anticipate that further long-term borrowing will be needed during 2015/16. We shall take out long term borrowing on West Midlands debt when it is economically advantageous to do so.

Local Government Association Bond Agency

9.5 The Local Capital Finance Company was established in 2014 by the Local Government Association (LGA) as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons; borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the authority and used to bolster the Agency's capital strength instead.

9.6 Due to the nature of the Council's anticipated borrowing requirements, it does not intend to borrow from the LGA Bond Agency in 2015/16.

10.0 Debt Rescheduling and Premature Repayment Opportunities

10.1 We may consider rescheduling or premature repayment with the following aims:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in 8 above;
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

10.2 Any rescheduling or premature repayment will be reported to an appropriate committee at the meeting following its implementation.

11.0 HRA Self Financing

11.1 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

11.2 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. An average of this notional balance will be calculated annually and interest transferred between the General Fund and HRA at an internally determined rate of interest, adjusted for risk.

12.0 Training

12.1 CIPFA's Code of Practice requires the Chief Officer Finance and Legal Services to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Relevant training is provided by Arlingclose to the members of the Audit Committee.

12.2 The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Officer Finance and Legal Services will recommend and implement the necessary arrangements.

13.0 Treasury Management Advisors

13.1 The Council uses Arlingclose Ltd as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

13.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council maintains the quality of the service with its advisors by holding regular meetings and tendering periodically for the provision of treasury management advice

13.3 The Council receives the following services from Arlingclose :

a. Credit advice
b. Investment advice
c. Technical advice
d. Economic & interest rate forecasts
e. Workshops and training events for officers and members