Meeting of the Council

Monday, 24th February, 2014 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 2nd December, 2013 as a correct record (Pages CL/30 – CL/38).

4. Mayor's Announcements.

5. To receive reports from meetings as follows:

   Meeting of the Cabinet held on 12th February, 2014:

   Councillor Sparks to move:

   (a) Capital Programme Monitoring (Pages 1 to 14).

   (b) Adoption of the Members and Officers Code of Conduct – Planning Matters (Pages 15 to 16).

   Councillor Waltho to move:

   (c) Deployment of Resources – Housing Revenue Account and Public Sector Housing Capital (Pages 17 to 42).

Councillor Foster to move:

(d) Dudley Business Investment Zone (Pages 43 to 53).

Meeting of the Audit and Standards Committee dated 13th February, 2014

Councillor Cowell to move:

(e) Treasury Management (Pages 54 to 69).

6. 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.

7. 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.

Director of Corporate Resources
Dated: 14th February, 2014

Distribution: All Members of the Council

Please note the following important information concerning meetings at Dudley Council House:

- In the event of the alarms sounding, please leave the building by the nearest exit. There are Officers who will assist you in the event of this happening, please follow their instructions.
- There is no smoking on the premises in line with national legislation. It is an offence to smoke in or on these premises.
- Please turn off your mobile phones and mobile communication devices during the meeting or set them to silent.
- If you (or anyone you know) is attending the meeting and requires assistance to access the venue and/or its facilities, please contact the contact officer below in advance and we will do our best to help you.
- Information about the Council and our meetings can be viewed on the website **www.dudley.gov.uk**
- 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 2ND DECEMBER, 2013 AT 6.00 PM AT THE COUNCIL HOUSE, DUDLEY

PRESENT: -

Councillor A Finch (Mayor)
Councillor M Aston (Deputy Mayor)
Councillors A Ahmed, K Ahmed, Ali, Arshad, A Aston, Attwood, Baugh, Mrs Billingham, Bills, Blood, Body, Boleyn, Branwood, Burston, Casey, Caunt, Cotterill, Cowell, Crumpton, Duckworth, Elcock, Evans, K Finch, Foster, Hale, Hanif, Harley, Harris, Hemingsley, Hill, Islam, James, J Jones, L Jones, Jordan, Kettle, Lowe, Marrey, J Martin, Mrs P Martin, Miller, Mottram, Ms Nicholls, Partridge, Perks, Ridney, Roberts, Mrs Rogers, Russell, Mrs Shakespeare, Mrs Simms, Sparks, Sykes, Mrs H Turner, K Turner, S Turner, Tyler, Vickers, Mrs Walker, Waltho, Mrs Westwood, C Wilson, M Wilson, Wood, Wright and Zada, together with the Chief Executive and other Officers.

PRAYERS

The Mayor's Chaplain led the Council in prayer.

---

37 APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillors Mrs Ameson, Herbert, Taylor and Woodall.

---

38 DECLARATIONS OF INTEREST

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

Councillor Ali – Action Note 19 of the Castle and Priory, St James's and St Thomas's Community Forum (Area Grants) – Non-pecuniary interest as a Director of St Thomas's Network.

Councillor Bills – Action Note 19 of the Halesowen North and Halesowen South Community Forum (Area Grants) – Non-pecuniary interest in relation to the application from Leaps and Bounds.

Councillor Mrs Shakespeare – Action Note 19 of the Halesowen North and Halesowen South Community Forum (Area Grants) – Non-pecuniary interest in relation to the application from Unit 3sixty.

Councillor Vickers – Minute No. 12 of the Children's Services Scrutiny Committee (reference to Tenterfields Children's Centre) – Non-pecuniary interest as the Chair of the Management Committee of the Centre.

Councillor Mrs Simms - Minute No. 12 of the Children's Services Scrutiny Committee (reference to Kates Hill and Sledmere Children's Centres) – Non pecuniary interest in view of her involvement with a looked after child who attended the centres.

Councillor C Wilson – Minute No. 40 of the Development Control Committee (Planning Application No. P13/1065 - Stourbridge College, Hagley Road, Stourbridge) - Non-pecuniary interest as a Feofee of Old Swinford Hospital.

Councillors Zada and Perks – Minute No. 43 of the Development Control Committee (Planning Application No. P13/0345 - Yew Tree Inn Public House, Hockley Lane, Netherton) - Non-pecuniary interest as they knew the objector.

Councillor Cowell – Minutes of the Ernest Stevens Trusts Management Committee – Non-pecuniary interest in view of her being invited to serve as a Trustee of Mary Stevens Hospice.

Councillor Mrs Rogers – Minutes of the Ernest Stevens Trusts Management Committee – 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 Wright – Non-pecuniary interest in any reference to Midland Heart as a tenant.

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

Councillor A Aston – Pecuniary Interest in any references to matters affecting West Midlands Ambulance Service (WMAS) as an employee of WMAS.

Councillor Hanif – Non-pecuniary interest in Agenda Item No. 6 (Notice of Motion) as a Member of the Steering Committee of Stourbridge Fairtrade.

Councillor M Aston – Minute No. 12 of the Children's Services Scrutiny Committee and any references to Children's Centres - Non-pecuniary interest as a member of the Committee for Priory Children's Centre.

---

39 MINUTES

RESOLVED

That the minutes of the meeting of the Council held on 7th October, 2013, be approved as a correct record and signed.

---

40 MAYOR'S ANNOUNCEMENTS

(a) Death of the Earl of Dudley, Mr W Martin and Mr T Williams

The Mayor referred to the recent deaths of the Earl of Dudley, Mr W Martin and Mr T Williams. It was noted that Bill Martin had served as Mayor's Consort in 2009/10 and Tony Williams had served as Chief Finance Officer until his retirement in 1993. Members stood in silent tribute as a token of respect to their memory. Councillor Mrs P Martin addressed the Council and thanked friends and colleagues for their support during this difficult time.

(b) Oldswinford Primary School – Fairtrade Status

The Mayor reported on the success of Oldswinford Primary School in gaining Fairtrade Status. Following comments from Councillor Lowe, the Mayor presented representatives of the School with their certificates and the Council congratulated all concerned.

(c) UK Youth Parliament and Dudley Youth Council – 'Make Your Mark' Ballot Consultation

The Mayor reported on the success of representatives of the UK Youth Parliament and Dudley Youth Council in relation to the 'Make Your Mark' Ballot Consultation. Following comments from Councillor Crumpton, the Mayor presented the representatives with their certificates and the Council congratulated all concerned.

(d) Remembrance Sunday and Armistice Day Events

The Mayor expressed thanks to all concerned for the excellent organisation in connection with the above events despite the inclement weather.

(e) Forthcoming Civic Events

The Mayor reported on the following events:

- Charity Cheese and Wine Tasting Evening – 3rd December, 2013
- Christmas Charity Coffee Morning – 13th December, 2013
- Civic Carol Service – 18th December, 2013

(f) Ms J Porter – Director of Children's Services

The Mayor reported that this would be the last full Council meeting for Jane Porter in her capacity as Director of Children's Services in view of her impending retirement in December, 2013. On behalf of the Council, the Mayor wished Ms Porter a long, happy and healthy retirement. Councillors Crumpton, Sparks and Mrs Walker expressed their personal best wishes.

(g) Honorary Alderman Cyril Woodall and Mrs June Collins

The Mayor referred to the recent illness of Honorary Alderman Cyril Woodall and former Councillor June Collins. The Council extended its best wishes.

---

41 CAPITAL PROGRAMME MONITORING

A report of the Cabinet was submitted.

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

RESOLVED

(1) That current progress with the 2013/14 Capital Programme, as set out in Appendix A to the report now submitted, be noted and that budgets be amended to reflect the reported variances.

(2) That the urgent amendment to the Capital Programme, as set out in paragraph 5 to the report now submitted, be noted.

---

42 REVENUE BUDGET STRATEGY 2014/15

A report of the Cabinet was submitted.

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

RESOLVED

(1) That 2013/14 budgets be amended as set out in paragraphs 4, 8 and 9 of the report now submitted.

(2) That the strategy for employee related budget savings, as set out in paragraph 12 of the report now submitted, be endorsed.

---

43 LOCALISED COUNCIL TAX REDUCTION SCHEME 2014/15

A report of the Cabinet was submitted.

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

RESOLVED

(1) That, further to consideration of the outcomes of the preceptor and public consultation on the Council Tax Reduction (CTR) scheme, member scrutiny, the equality impact assessment and last year's results of the Big Question budget survey in 2012, that the CTR scheme be amended from 1st April 2014 and that the scheme be based on the eligibility and calculation rules of the current scheme with a 20% cut in the resulting level of the reduction; and that a transitional arrangement of an 8.5% cut in the calculated reduction apply at least up to 31st March 2015 with full protection from any scheme changes being given to pensioners (as defined in legislation), disabled adults, disabled children, war pensioners and lone parents with a child under 5, the definition of the protected groups to be as defined in the 2013 public consultation.

(2) That, subject to full Council approval before 31st January, 2015 the transitional arrangements of an 8.5% cut may be extended beyond 31st March 2015 without further public consultation.

(3) That the Council approve the proposal to document the preferred CTR scheme in such a manner that any personal allowances, premiums, disregards and non-dependent deductions are automatically linked to equivalent annually up-rated values published by the central government in either Housing Benefit Legislation or the prescribed Council Tax Reduction scheme for pensioners; this will allow any approved scheme to be automatically carried forward to future years, without the need for annual public consultation and re-approval, until such time that further scheme changes are considered.

---

44 <u>ANNUAL REVIEW OF THE CONSTITUTION</u>

A report of the Cabinet was submitted.

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

RESOLVED

(1) That the work undertaken and in progress to integrate public health functions within the Constitution, as referred to in paragraphs 8 and 9 of the report now submitted, be noted.

(2) That the terms of reference of the Appointments Committee be amended, with consequential changes elsewhere in the Constitution, to provide for salary packages for new appointments and any severance packages for employees that exceed £100,000 to be recommended to full Council for approval as referred to in paragraphs 10 and 11 of the report now submitted.

(3) That the review of the Members' Planning Code of Good Practice, as referred to in paragraph 12 of the report now submitted, be noted.

(4) That the proposed addition to the terms of reference of the Ernest Stevens Trusts Management Committee be approved as set out in paragraphs 13 and 14 of the report now submitted.

(5) That the Deputy Leader (Cabinet Member for Finance) be authorised to sign Decision Sheets in the absence of the Cabinet Member for Human Resources, Legal and Property, as referred to in paragraph 15 of the report now submitted.

(6) That the approach to the recording of Council, Cabinet, Committee and other meetings, as set out in paragraphs 16 to 19 of the report now submitted, be approved and that Council Procedure Rule 24.6 be amended accordingly.

(7) That the amended Terms of Reference for West Midlands Joint Committee, as described in paragraphs 20 to 26 and Appendix 1 to the report now submitted, be approved insofar as they relate to the executive functions of Dudley Metropolitan Borough Council and that the Director of Corporate Resources be authorised to take any necessary and consequential actions to give effect to this decision.

(8) That the Leader of the Council, in consultation with the Chief Executive, be authorised to send or sign a letter of support to the Secretary of State for Transport in connection with the proposed structural changes to the Integrated Transport Authority.

(9) That the establishment of the Black Country Executive Joint Committee, as referred to in paragraphs 27 to 33 of the report now submitted, be approved and the Constitution be amended accordingly.

(10) That the constitution of the Black Country Executive Joint Committee, including the Terms of Reference set out in Appendix 2 to the report now submitted, be endorsed and the associated functions and powers be delegated to the Executive Joint Committee, subject to the requirement that any revenue or capital expenditure programmes or commitments are approved by the Cabinet and full Council in accordance with the existing Constitutional requirements of Dudley MBC.

(11) That the Leader of the Council be appointed as the Cabinet's representative on the Black Country Executive Joint Committee together with a named Member to act as a substitute.

(12) That the proposals for the City Deal and Growth Deal Advisory Board, as set out in paragraphs 31 and 32 of the report now submitted, including the provision for the appointment of the Cabinet Member for Regeneration, be approved.

(13) That the Leader of the Council, in consultation with the Chief Executive and appropriate Directors, be authorised to make any necessary and consequential changes to the terms of reference of the Black Country Executive Joint Committee that may be required from time to time to implement the proposals in the report now submitted.

(14) That the appointment of Walsall MBC to act as Secretary to the Black Country Executive Joint Committee and Advisory Board be noted.

(15) That the ongoing reviews of governance arrangements, as referred to in paragraph 34 of the report now submitted, be noted.

---

45 NOTICE OF MOTION

Pursuant to Council Procedure Rule 12, Councillor Lowe had given notice of a motion on 28th October, 2013.

The motion, as set out in the agenda, was moved by Councillor Lowe and seconded by Councillor Body.

Following the conclusion of speeches by Members, Councillor Lowe exercised his right of reply to the debate.

The original motion was thereupon put to the vote and it was

RESOLVED that:-

Dudley Metropolitan Borough Council recognises the important contribution of Fairtrade to the well being of producers in the developing world.

The Council welcomes the support of local shops and shoppers, catering outlets, schools, churches and other organisations in Dudley and in the wider UK for Fairtrade. This support is demonstrated in the ongoing rise of Fairtrade sales in the UK: in 2012 sales reached £1.57 billion.

This Council recognises that as an important consumer itself and opinion leader it should support a strategy to facilitate the promotion and purchase of foods with the FAIRTRADE Mark within the Borough as part of its commitment to pursue sustainable development and to give marginalised producers a fair deal.

The Council welcomes the fact that it passed a resolution in July 2007 in support of Fairtrade enabling Stourbridge to meet Goal One of the Fairtrade Town criteria and to achieve Fairtrade Town Status in September 2010. The Council also welcomes the fact that since 2010 there has been increasing active mutual support between the members and staff of Dudley Council and supporters of Fairtrade in Dudley Borough. For instance, the Council installed signs in Stourbridge Town Centre in 2013 marking its status as a Fairtrade Town.

The proposal of this further resolution aims to consolidate the commitment made by this Council in 2007 and to build on it for the future. Supporting Fairtrade can promote civic pride, benefit the local community and makes a real difference to the lives of producers.

This Council aims to be recognised by the residents and business community of Dudley Borough, suppliers, employees and other local authorities, as a Borough that actively supports and promotes Fairtrade and helps to increase the sale of products with the FAIRTRADE Mark.

The Council resolves to contribute to the campaign to increase sales of products with the FAIRTRADE Mark by striving to achieve Fairtrade status for Dudley Metropolitan Borough as detailed in the Fairtrade Foundation's Fairtrade Towns Initiative.

The Initiative involves a commitment to:

- Widely offer FAIRTRADE Marked food and drink options internally and make them available for internal meetings and to extend the range of Fairtrade products used.

- Promote the FAIRTRADE Mark using Fairtrade Foundation materials in refreshment areas and promoting the Fairtrade Towns initiative in internal communications and external newsletters and in the local press when appropriate.

- Use influence to urge local retailers to provide Fairtrade options for residents.

- Use influence to urge local business to offer Fairtrade options to their staff and promote the FAIRTRADE Mark internally.

- Allow the Council's Communication Team to publicise the Fairtrade Towns initiative during Fairtrade Fortnight and on other appropriate occasions using internal and external media.

- Organise events, displays and publicity during national Fairtrade Fortnight - the annual national campaign to promote sales of products with the FAIRTRADE Mark. This can include the encouragement of local schools to promote Fairtrade through competitions, events and displays as encouraged in Fairtrade Fortnight 2013 by Dudley Performing Arts.

- Promote Fairtrade on the Council's website.

- Encourage other towns in Dudley Borough to work towards Fairtrade Town Status.

- Allocate responsibility for progression of the Fairtrade Town initiative to a member or group of staff.

---

46 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.

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

The meeting ended at 8.00 p.m.

MAYOR

Meeting of the Council – 24th February, 2014

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 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 2014/15.

Background

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

	2013/14 £'000	2014/15 £'000	2015/16 £'000
Public Sector Housing	39,985	32,979	31,399
Other Adult, Community and Housing	8,989	2,647	550
Urban Environment	28,180	23,894	10,302
Children's Services	10,255	20,194	80
Corporate Resources	2,378	2,196	1,428
Total spend	**89,787**	**81,910**	**43,759**
Revenue	17658	11600	7938
Major Repairs Reserve (Housing)	22118	22273	22625
Capital receipts	6675	15301	8318
Grants and contributions (inc. Lottery)	19212	16872	1963
Capital Financing Requirement*	24124	15864	2915
Total funding	**89,787**	**81,910**	**43,759**

*This will be funded internally from the Council's cashflow 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 2013/14 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.

Adult, Community and Housing

Disabled Facilities Grants 2014/15 Allocation

7. The Council has been notified of its Disabled Facilities Grant funding allocation for 2014/15 of £2.033m which will, along with the availability of other Housing capital resources, provide a total budget of £2.517m. This will fund around 185 grants depending on the nature and cost of the works involved, allowing waiting times to be reduced. It is proposed that the allocation be noted and the associated expenditure included in the Capital Programme.

Tiled House Lane Residential Care Home

8. In September 2013, Cabinet approved a budget of £600,000 for the refurbishment of the Care Home, of which £500,000 was to be funded from resources received by the Council from the Primary Care Trust prior to its winding up. It is now proposed that these costs be funded instead from unallocated Adult Social Care capital grant funding which is already included in the Capital Programme, and that the Capital Programme be amended accordingly.

Adult Personal Social Services Community Capacity Grant

9. In February 2013, Cabinet noted the Council's allocations of Adult Personal Social Services capital funding for 2013/14 and 2014/15, intended to support development in the three key areas of personalisation, reform and efficiency, and agreed that the associated spend on relevant Adult Personal Social Services projects be included in the Capital Programme.

Libraries play an important role in the provision of information and advice which is central to our delivery of the personalisation agenda. It is therefore proposed that it be noted that the programme to be funded from these resources this year includes £17,000 of expenditure on fire safety compliance work at Halesowen Library, and also that the Director of Adult, Community and Housing Services be authorised to allocate such funding for similar purposes, as appropriate within the overall objectives of the grant allocations.

Urban Environment

MoT Testing Facility

10. In June 2012, Cabinet approved a project to upgrade and equip premises at Enterprise Trading Estate, Brierley Hill to provide an MOT Testing Service to be offered in conjunction with the routine taxi inspection, effectively creating a Taxi "One Stop Shop" in an attempt to minimise the amount of time taxis are off the road.

Alternative premises have now been identified at Hurst Business Park, Narrowboat Way as the facility is more suitable for office accommodation, staff, training and the fitment of Vehicle and Operator Services Agency (VOSA) approved equipment. This facility requires less adaptation to bring it into use. The specialist equipment required can be installed and ready for use on 1st May 2014.

It is proposed that the revised project be approved.

Pay and Display Machine Renewal

11. The condition of the existing Pay and Display machines is deteriorating, and parts are becoming obsolete. Many of the existing machines were installed when Pay and Display was implemented in 1993 and have performed well beyond their anticipated life expectancy. The intention is to replace all 52 machines including the pedestals and software at a cost of approximately £300,000 funded from revenue repairs and maintenance budget contributions over 5 years.

It is proposed that the project be approved and included in the Capital Programme.

12. Better Bus Area Fund

In 2012 the Council along with project partners, Westfield Shopping Towns and local bus operators, supported the successful submission of a bid by Centro to the Better Bus Area Fund (BBAF). The bid to improve accessibility to public transport for the Brierley Hill Area secured £5,000,000 of Government grant and was match funded by the project partners.

Originally it had been anticipated that the highway elements of the project would be delivered by Westfield Shopping Towns. However, following their withdrawal from the project and in order to meet timescales for the BBAF grant it is now proposed that the Council lead delivery of the remaining highway elements. This involves construction of a new signal controlled pedestrian crossing on the A4036 Pedmore Road, subject to planning permission, and additional road space and signal controls to facilitate bus priority measures at the junction of the Boulevard with Mill Street, Brierley Hill.

The estimated cost of the works is £1,200,000 which can be funded by £1,100,000 of Government grant supported by £100,000 from the Council's Integrated Transport Block allocations for 2014/15.

It is proposed that the scheme be approved and included in the Capital Programme.

Children's Services

Schools Capital Allocations – Basic Need 2015/16 and 2016/17

13. The Council has been notified of its Basic Need allocations for 2015/16 and 2016/17 of £90,000 and £94,000 respectively – to support the provision of new pupil places where required. The funding will be allocated to specific projects in due course.

It is proposed that these allocations be noted and the associated expenditure included in the Capital Programme.

Schools Capital Allocations – Maintenance 2014/15

14. The Council has been notified of its Capital Maintenance allocation for 2015/16 of £3,721,000. This will be allocated on the basis of priorities determined through asset management data including health and safety issues, building condition surveys and access needs.

It is proposed that this allocation be noted and the associated expenditure included in the Capital Programme.

Schools Capital Allocations – Devolved Capital 2014/15

15. The Council has been notified of its Devolved Capital allocation for 2015/16 of £784,000. This will be allocated to schools based on a Department for Education formula. Schools will be expected to determine capital projects in accordance with priorities set out in their schools' asset management plans and in conjunction with the Buildings and Estates Team.

It is proposed that this allocation be noted and the associated expenditure included in the Capital Programme.

Universal Infant Free School Meals Capital allocation

16. The Council has been allocated £855,000 towards the capital requirements resulting from the entitlement of a free school meal for every pupil at key stage 1 from September 2014. The funding will be allocated to specific projects in due course.

It is proposed that this allocation be noted and the associated expenditure included in the Capital Programme.

The CIPFA Prudential Code for Capital Finance in Local Authorities

17. 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.

18. 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

19. 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.)

20. In line with the current policy, it is proposed that the Council agrees the following MRP Policy for 2014/15 as follows. This is unchanged from the 2013/14 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.)*

21. On consideration of the above, the Cabinet, at its meeting held on 12th February, 2014, resolved to recommend the Council to approve the proposals set out in paragraph 26 below.

Finance

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

Law

23. 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

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

25. 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

26. That the Council be recommended:

- That current progress with the 2013/14 Capital Programme, as set out in Appendix A be noted, and that budgets be amended to reflect the reported variance.

- That the Disabled Facilities Grant allocation for 2014/15 be noted and the associated expenditure funded from this and other available Housing capital resources be included in the Capital Programme, as set out in paragraph 7.

- That the revised funding for the Tiled House Lane Residential Home project be approved, and the Capital Programme amended accordingly, as set out in paragraph 8.

- That it be noted that the programme to be funded from Adult Personal Social Services Capacity Grant this year includes £17,000 of expenditure on fire safety compliance work at Halesowen Library, and also that the Director of Adult, Community and Housing Services be authorised to allocate such funding for similar purposes, as appropriate, within the overall objectives of the grant allocations, as set out in paragraph 9.

- That the revised project for provision of an MOT Testing Facility be approved, as set out in paragraph 10.

- That the project to renew all Pay and Display machines be approved and included in the Capital Programme, as set out in paragraph 11.

- That the Better Bus Area project be approved and included in the Capital Programme, as set out in paragraph 12.

- That the Schools Basic Need allocations for 2015/16 and 2016/17 be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 13.

- That the Schools Capital Maintenance allocation for 2015/16 be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 14.

- That the Schools Devolved Capital allocation for 2015/16 be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 15.

- That the Universal Infant Free School Meals allocation be noted and the associated expenditure included in the Capital Programme, as set out in paragraph 16.

- 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 approved.

- That the Minimum Revenue Provision (MRP) Policy for 2013/14 be approved as set out in paragraph 20.

…………………………
Leader of the Council

Appendix A

2013/14 Capital Programme Progress to Date

Service	Budget £'000	Spend to 31st December £'000	Forecast £'000	Variance £'000	Reasons for Variance
Public Sector Housing	39,985	23,094	38,753	-1,232	See note 1
Other Adult, Community & Housing	8,989	5,176	8,989		
Urban Environment	28,180	17,239	28,180		
Children's Services	10,255	4,462	10,255		
Corporate Resources	2,378	1,682	2,378		
TOTAL	**89,787**	**51,653**	**88,555**	**-1,232**	

1. Reduction in amount of overall total Minor Works expenditure which is of a capital nature.

Appendix B

Progress with Major Capital Schemes

Adult, Community and Housing

New Council Housing
The Council has been successful in securing match funding from the Homes and Communities Agency (HCA) from the Care and Specialised Support Housing Fund and work has commenced on design and planning for the 14 two bedroom apartments for people with learning disabilities and who are on the autistic spectrum at the former depots at Norfolk Road, Wollaston and The Walk, Sedgley, and 3 two bedroom three person houses also at The Walk. Work is continuing on feasibility studies for other potential new build across the borough although no firm proposals have been developed yet. Spend this year is planned to be only design and planning fees, with construction on site planned to commence later in 2014. Schemes are expected to be delivered within budget.

Dementia Gateways
In September 2012, Cabinet approved a budget of £1.610m to create new dementia gateways. Work has been successfully completed on the dementia gateway at Brettell Lane, Brierley Hill. The second dementia gateway scheme at Brett Young in Halesowen is due to commence on site in February 2014 with completion in August 2014. Based on current estimates, a further £150,000 is required, which can be met from unallocated Mental Health capital grant funding already included in the Capital Programme.

Archive and Local History Centre
The new borough Archive and Local History Centre is now completed. The building is operational and the Archive and Local History Service opened to the public on 14th January 2014. Following completion on site, final costs of the scheme are now being established and we anticipate the work will be on budget.

Tiled House Lane Residential Home Modernisation
Refurbishment works to carry out improvements to Tiled House Lane Residential Home have commenced and are expected to be completed, within budget, in May 2014.

Urban Environment

Street Lighting
Street lighting improvement works are in progress and the Street Lighting Central Management System (CMS) is now fully commissioned and operational. Just over 7,600 of the Council's 32,000 street lights can now be controlled via the CMS system remotely to help save energy; 3,400 of these have been converted to new lanterns. Spend is forecast to be within budget.

Recycling
The grant funded recycling vehicles are now operational and approximately two thirds of the boxes and bags have been deployed to households in line with Phases 1 and 2 of the rollout. Phase 3 rollout is expected to complete the recycling capital expenditure Spend is forecast to be within budget.

Wheeled Bins
Phases 1 and 2 wheeled bin deliveries have now been rolled out with Phase 3 bins expected to be delivered by February 2014. Spend is forecast to be within budget.

Priory Park Improvements
Awaiting some final snagging issues to be resolved by the main contractor, but capital project is virtually complete. Claims for capital funding from Heritage Lottery are almost complete. Revenue spend is progressing well with a large number of new volunteers involved in the improvements. Spend is forecast to be within budget.

Mary Stevens Park
Heritage Lottery Fund has given permission to start project. All conditions have been met. The Project Manager started work in December, and is due to start the process of regular project meetings to monitor progress. The design team will be recruited by March, and the procurement process has begun. 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. The design team are currently working on detailed designs on a phased basis. Works commenced onsite for the initial phase of the secondary route on 23rd September 2013. Works is to commence on lower level car parks later in the year with completion due early in the New Year. Further works to commence early 2014, with final completion currently projected for December 2014. Spend is forecast to be within budget.

Dudley Marketplace and Town Centre
The Dudley Marketplace project is currently underway with the first construction phase in Castle Street commencing on 20th January 2014. The Market Place phase will follow in the next financial year. Spend is forecast to be within budget.

Children's Services

DGfL3
Dudley Grid for Learning 3 includes a programme of ICT equipment upgrade and renewal across financial years 2013/14 & 2014/15. Consultation with schools to ascertain their priorities for the 'refresh' programme is underway and options have been presented to schools at events in December. Initial equipment procurement has commenced in response to schools and service needs. The programme and associated expenditure is therefore on schedule to bring improvement to schools ICT as planned.

Corbyn Road - base for joint Children's Safeguarding Unit and frontline social work teams
Tenders have now been returned, and work started on 20th January 2014 with a planned completion date of 27th June 2014. Expected outturn cost is within budget.

Pens Meadow Special School – Additional Places
A costed feasibility study has been produced and the next stage is for more detailed surveys to be undertaken to ascertain more up to date costs for refurbishment. Corporate Estates have been commissioned by the Directorate of Children's Services to negotiate a lease of the building on behalf of the Council. Construction & Design have been commissioned to provide full design services for the project.

Corporate Resources

Transforming our Workplace (ToW)

The project is now less than 6 months to completion. There has been some overspend on the refurbishment of core offices but this has been offset by underspend on other ToW budget lines such as fewer staff moves. Additionally, Non-Domestic Rate credits have been received for vacant offices during refurbishment periods. Work to offices at 3/5 St James's Road was originally due to complete before Christmas but has been delayed; predominantly due to slow work on site over November and December. However, furniture and ICT has been installed and the programme remains on target to relocate staff in early February. Alterations to offices at Mary Stevens Park Stourbridge are in progress ahead of the relocation of around 250 Children's Services staff commencing at the end of March. Work to the Council House complex and 8 Parsons Street is scheduled to commence in February 2014. The release of 12 surplus office sites has commenced with Castle Court, 5-7 The Broadway now on the market. The other 11 sites will be vacated in 2014. The whole programme of work is currently running to budget and is scheduled to complete accordingly to plan in July 2014.

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 2013/14, 2014/15 and 2015/16 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.

	2012/13 £m Actual	2013/14 £m Revised Estimate	2014/15 £m Revised Estimate	2015/16 £m Revised Estimate	2016/17 £m Estimate
Non - HRA	31.1	50.0	57.6	12.5	7.2
HRA	41.3	38.8	43.1	41.2	41.0
Total	**72.4**	**88.8**	**100.7**	**53.6**	**48.2**

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.

	2012/13 £m Actual	2013/14 £m Revised Estimate	2014/15 £m Revised Estimate	2015/16 £m Revised Estimate	2016/17 £m Estimate
Non - HRA	292.5	301.7	303.3	291.9	283.5
HRA	464.1	464.1	464.1	464.1	464.1
Total	**756.6**	**765.8**	**767.4**	**756.0**	**747.6**

The limit on the HRA CFR imposed on implementation of self-financing is £464.1m.

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 2013/14 to 2016/17.

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 and Public Sector Housing reports elsewhere on this agenda. There are no proposals to undertake new borrowing for General Fund capital expenditure. New borrowing for Public Sector Housing capital expenditure would not be possible within the limits imposed on the HRA CFR as part of self-financing; The impact on Council Tax and Rents is therefore as follows.

	2014/15	**2015/16**	**2016/17**
	£	**£**	**£**
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.

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	%	**%**	**%**	**%**	**%**
	Actual	**Revised Estimate**	**Revised Estimate**	**Revised Estimate**	**Estimate**
Non - HRA	9.7	8.9	9.0	10.0	9.8
HRA	44.8	44.3	44.8	43.5	42.9

The increase in the HRA indicator from 2012/13 onwards, compared with previous years' figures, reflects the extra debt taken on as part of HRA self-financing and the inclusion of depreciation within capital financing costs in accordance with updated Code requirements.

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.

	2012/13	**2013/14 Revised**	**2014/15 Revised**	**2015/16 Revised**	**2016/17**
	£m	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt:					
Borrowing	n/a	926	919	898	877
Other long term liabilities	n/a	38	39	40	41
Total	**n/a**	**964**	**958**	**938**	**917**
Operational boundary:					
Borrowing	n/a	811	817	855	855
other long term liabilities	n/a	37	39	40	41
Total	**n/a**	**848**	**856**	**895**	**896**
Actual External Debt:					
Borrowing	737.0	n/a	n/a	n/a	n/a
Other long term liabilities	33.9	n/a	n/a	n/a	n/a
Total	**770.9**	**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 – 24th February, 2014

Report of the Cabinet

Adoption of the Members and Officers Code of Conduct – Planning Matters

Purpose of Report

1. To consider the proposals of the Cabinet regarding an amended Members and Officers Code of Conduct - Planning Matters.

Background

2. The Council introduced its written Constitution in May 2002. Section 37 of the Local Government Act 2000 requires the Council to keep the Constitution up to date. This is reflected in Article 15, which requires the Monitoring Officer to monitor and review the operation of the Constitution in order to ensure that the aims and principles are given full effect. Full Council is responsible for approving changes to the Constitution after consultation with the Cabinet.

3. The Constitution is an important vehicle by which the Council promotes its overall democratic governance arrangements. An annual review of the Constitution was undertaken in November 2012 and again in October 2013. All previously approved amendments have been fully implemented. Amendments are routinely made to update legal provisions and reflect ongoing operational issues.

4. This report takes account of ongoing changes in the national and local context and it is recognised that further amendments to the Constitution may be necessary during 2013/14 and beyond.

5. At the meeting of Cabinet on 30th October 2013 it was reported that the Members and Officers Code of Conduct - Planning Matters, as set out in Part 6 of the Constitution, was undergoing a detailed review to update the guide to reflect recent changes resulting from the Localism Act 2011 and to bring it in line with best practice nationally. The opportunity has also been taken to make changes to clarify and refine certain procedures as a result of practical issues encountered over the last year. The review is now completed and has taken into account the changes to the Members and Officers Code of Conduct - Planning Matters, at Part 6 within the Constitution, the rules on the declaration of interests and various other aspects associated with the development control process. The matter was reported to the Development Control Committee on 6th January 2014.

6. The main development control changes include:-

- Changes to public speaking to allow a maximum of two Ward Members to speak (one in support and one in objection).
- Clarity in respect of attendance at informal and formal site visits and where a formal visit is not attended by a member, removal of the ability to vote when the matter is finally considered.
- Clarity on declarations of interests following the Localism Act 2011 changes.

7. On consideration of the information contained in this report, the Cabinet, at its meeting held on 12th February, 2014, resolved to recommend approval of the proposed amended Members and Officers Code of Conduct - Planning Matters, which is available to view in full on the Committee Information Management System on the Council's internet site.

Finance

8. There are no financial implications arising from this report. Any costs arising from compliance with the Constitution are met from existing budgets.

Law

9. Section 37 of the Local Government Act 2000 requires the Council to keep its Constitution up to date.

10. Section 25 of the Localism Act, 2011 introduces provisions for dealing with allegations of bias or pre-determination or matters that otherwise raise an issue about the validity of a decision, whether the decision-maker(s) had or appeared to have a closed mind (to any extent) when making the decision.

Equality Impact

11. This report complies with the Council's policies on equality and diversity and there are no particular implications for children and young people.

Recommendation

12. That the proposed amended Members and Officers Code of Conduct - Planning Matters, be approved.

…………………………
Leader of the Council

Dudley Metropolitan Borough Council

Meeting of the Council – 24th February, 2014

Report of the Cabinet

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

Purpose of Report

1. The purpose of this report is:

- To set the Housing Revenue Account (HRA) budget for 2014/15 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions, and to determine associated matters in connection therewith.
- To set a capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock for 2014/15 to 2018/19, and to determine matters associated therewith.

Background

2. The HRA is a "ring-fenced" revenue account and deals with landlord functions associated with public sector housing[1]. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

Rent increase

3. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance, including convergence with other registered social landlords' rents by 2015/16. However, there is no longer a requirement for us to follow this guidance, and therefore it is proposed that the next increase be on 7th April 2014 and be a flat-rate increase of 1.5%, equivalent to an average of £1.22 per week. We have considered this carefully in the light of future affordability and the continuing financial viability of the HRA. The range of actual proposed rent increases is as follows:

RANGE OF RENT INCREASES

[1] The Housing General Fund deals with private sector issues, such as general housing advice. The separation of expenditure and income between the HRA and the General Fund complies with government guidance.

Range of weekly rent increase	Proportion of properties affected
£1.00 or less	8.56%
£1.01 to £1.25	45.95%
£1.26 to £1.50	43.83%
£1.51 to £2.17	1.66%

4. Officers met with the Board of the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 18 November 2013 to discuss proposals for the next rent increase. The Board accepted the basis for the 1.5% increase, but emphasised the importance of directing rental income to maintaining and improving council properties.

5. 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. Service charges for furniture will be increased by 3.2% in line with inflation and service charges for overnight support in certain sheltered schemes will be maintained at their current levels as a review of the service is taking place in 2014/15.

6. 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. In previous years, inflationary increases in these charges has not kept pace with the level of increase in fuel prices, and Cabinet agreed in February 2009 to implement a 25% increase with further increases in future years to achieve a gradual return to cost recovery. Utility prices have, however, continued to rise at a faster rate than general inflation, and these charges will be increased by 12% in 9 of the 11 schemes, from a current average weekly charge of £13.11 to a new average weekly charge of £14.43. At two schemes (The Gables and Netherton Lodge), actual charges are lower and therefore will not be increased for 2014/15. The overall average increase is 10%.

7. 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. All of these charges will be increased by 3.2% in line with inflation.

8. 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). These charges will be increased from £2.10 to £2.20 per token.

9. Pitch licences at Oak Lane will be increased by 1.5%, in line with the increase proposed for general rents and weekly charging for water will also be increased by 1.5% to £6.25 per week.

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

11. The Council currently charges private residents who are in receipt of Telecare services £13.00 per month, and also charges Housing Association tenants varying amounts for this service. These charges will be maintained at current levels from 1 April 2014. Income generated will be used to increase investment in and development of the service.

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

12. It was agreed by Cabinet in February 2008 that inflationary increases for garages, garages plots and access agreements be made every three years, with the next increase to take effect from 2014/15.

13. Annual rents for garage plots and access agreements were last increased from April 2011. These rents will be increased with effect from 1st April 2014 by 11.8% to take into account inflation over the previous three years.

14. Garages have been categorised as Red, Amber or Green, based on their condition, with rent increases being considered every three years. This approach was agreed by Cabinet following consultation with Area Housing Panels. The last general inflationary increase of garage rents took place in April 2011. Rents will be increased from 7th April 2014 by 40p to 50p per week, depending on category and area, as shown in the table below.

	Red	Amber	Green
Current weekly rent	£2.27	£3.80 to £5.00 *	£3.80 to £5.25 *
Proposed weekly rent	£2.27	£4.20 to £5.00 *	£4.20 to £5.25 *
Increase	0	40p to 50p *	40p to 50p *
* depending on area			

15. In view of the small weekly sums involved and the administrative cost of implementing rent increases, general inflationary increases for garages, garages plots and access agreements will continue to be considered every three years, with the next increase due from April 2017.

<u>Proposed HRA budget 2014/15</u>

16. The proposed HRA budget for 2014/15 (together with a proposed revised budget for 2013/14) 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.

17. The current budget for 2013/14 (approved by Cabinet in June 2013) shows a surplus on the HRA of £0.888m at 31st March 2014. The proposed revised budget for 2013/14 shows a surplus at the same date of £3.839m. Variances arise mainly from
    - Reduced rental income owing to higher than anticipated right to buy sales and voids;
    - The full additional bad debt provision set aside for 2013/14 to deal with the impact of welfare reform has not been required, owing to delays in the Government's programme, in particular the slower roll-out of Universal Credit;
    - Savings in housing management owing to vacant posts and under spends on running costs;
    - Reserves set aside but not yet required - for example for welfare reform owing to delays in the Government's programme;
    - Additional income earned from aerials on high rise flats.

    Savings will be rolled forward into 2014/15 to invest further in maintaining and managing the housing stock. Reserves will be required in 2014/15 and subsequent years.

18. The proposed HRA budget for 2014/15 takes account of the average rent increase of £1.22 on the 7th April 2014 (paragraph 3).

19. The proposed HRA budget for 2014/15 includes a budget for housing management of £18.0m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management. A number of reserves identified in the previous financial year will be carried forward into 2014/15, for example, those relating to the Government's welfare reform programme.

20. The proposed HRA budget for 2014/15 includes a budget for repairs and maintenance of £24.1m. This reflects:
    - Maintaining the current responsive repairs service standard;
    - 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.

21. The proposed HRA budget for 2014/15 includes a budget for interest payments of £18.0m. This covers the payments that are due on the debt taken on as part of the self-financing settlement. It is not currently planned to increase borrowing, as debt is at the maximum allowable under the HRA debt cap.

Public sector housing capital budget 2014/15 to 2018/19

22. 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 stock validation survey undertaken during 2013 will inform the development of a long-term investment plan. A proposed £206m public sector capital budget for 2014/15 to 2018/19 and a revised budget for 2013/14 are attached as **Appendix 2.** Explanations of the budgets are attached as **Appendix 3**.

23. The proposed £206m rolling five year capital investment programme is a £38m increase in investment over current approved plans. This investment 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 September 2012. 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 energy efficiency to contribute towards reducing fuel poverty for residents using the capital programme to match-fund potential external resources such as Energy Company Obligations (ECO) which also address carbon saving climate change initiatives;
- Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation;
- Providing new social housing homes within the borough;
- Providing investment at affordable levels for communal facilities such as high rise lift replacement, community safety and environmental programmes;
- Maintaining investment in social care programmes such as providing Adaptations for persons with disabilities.

24. Whilst the detail of the proposed programmes is included within **Appendix 3,** notable projects over the five year period from 2014/15 to 2018/19 are as follows:

- Continued investment in Adaptations for persons with disabilities with £14m 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;
- £21.4m investment over 5 years (£11m more than previously planned) improving the efficiency of central heating and providing more affordable heating in 5,500 homes, helping to reduce fuel poverty.

- £8.7m investment in electrical installations, including over £6m on replacing lifts, communal lighting to high rise accommodation and providing upgraded door entry systems to flatted developments. Investment is also maintained for upgrading electrics and rewiring homes;
- £32m 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;
- £15.7m on replacement roofs;
- £4.9m on community safety and environmental improvements to estates;
- A £14.6m programme will deliver around 5,000 internal improvements such as kitchens and bathrooms over 5 years;
- Undertaking £58.7m of improvements in empty properties to ensure that they can be re-let;
- £13.4m will provide over 100 new council homes, £6m more than currently approved. Two schemes for 17 homes (14 for persons with learning disabilities) are already being progressed at the Walk, Sedgley and Norfolk Road, Wollaston, and feasibility studies are under way for a number of other potential sites. £758,000 is also proposed to undertake necessary roof and structural improvements over 3 years at the Leys Depot, Brierley Hill.
- A review is currently being undertaken of the borough's sheltered accommodation and whilst individual scheme proposals are yet to be developed, a financial provision of £1.1m is proposed over the next 2 years to start to address the outcomes from the review.

25. Approval is sought to continue discussions with Energy Service Providers and similar organisations and to bid for, enter into negotiations and / or seek tenders as appropriate to progress carbon saving and / or power generating schemes to improve fuel poverty across the borough. Resources will be sought under the Energy Company Obligations (ECO) flowing from the Energy Act 2011, which takes over from existing energy service provider obligations under CERT (Carbon Emission Reduction Target) and CESP (Community Energy Saving Programme). ECO is intended to continue to provide funding for energy saving measures where households most need additional support, particularly in deprived areas, but also in hard to treat (or insulate) houses such as solid wall properties across the borough. A £4m scheme incorporating £3.2m of insulation and energy related measures is already planned supported by around £1.5m of ECO funding providing external wall insulation to almost 400 homes across the borough.

26. It is proposed that any additional resources obtained under paragraph 25 be added to the Capital Programme accordingly and the Directors of Corporate Resources and Adult, Community and Housing Services be approved to enter into any such grant or funding agreements necessary to deliver the schemes.

27. To ensure effective utilisation of all resources that become available, Cabinet, at its meeting held on 12th February, 2014, resolved to recommend the Council to authorise the Director of Adult, Community and Housing Services, 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, Cabinet resolved to recommend the Council that all capital receipts arising from the sale of HRA assets (other than those specifically committed to support private sector housing grants) should continue to be used for the improvement of council homes.

28. To facilitate implementation of the programme, the Cabinet, at its meeting held on 12th February, 2014, authorised the Director of Adult, Community and Housing Services to prepare specifications and undertake procurement in accordance with Standing Orders and Financial Regulations. Cabinet also authorised the Director of Adult, Community and Housing Services to enter into and award contracts on their behalf.

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

29. With the abolition of the HRA Subsidy system and the introduction of self-financing for housing authorities, 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.

30. 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.

31. In addition to determining matters under its delegated powers, the Cabinet at its meeting on 12th February, 2014, resolved to recommend the Council to approve the proposals set out in paragraph 35 below.

Finance

32. 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 2015. 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 2015 and therefore complies with the requirements of the Act.

Law

33. HRA finances are governed by Sections 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

34. 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 do not.
- foster good relations between people who share a characteristic and those who do not.

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

35. It is recommended that the Council:

(a) approve the revised HRA budget for 2013/14 and the HRA budget for 2014/15 as outlined in Appendix 1;

(b) approve the public sector housing revised capital budget for 2013/14 and the capital budget for 2014/15 to 2018/19 attached as Appendix 2;

(c) authorise the Director of Adult, Community and Housing Services and the Director of Corporate Resources to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraphs 25 and 26;

(d) authorise the Director of Adult, Community and Housing Services, in consultation with the Cabinet Member for Housing and Community Safety, to manage and allocate resources to the capital programme as outlined in paragraph 27;

(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 27).

…………………………
Leader of the Council

Appendix 1

Proposed HRA Budget

	2013/14 current budget June 2013 £000	2013/14 proposed revised budget £000	2014/15 proposed original budget £000
Income			
Dwelling rents	-88,573	-89,296	-88,948
Non-dwelling rents	-696	-688	-738
Charges for services and facilities	-204	-243	-243
Contributions towards expenditure	-734	-1,071	-100
Interest on balances	-23	-33	-11
Total income	**-90,230**	**-91,331**	**-90,040**
Expenditure			
Responsive and cyclical repairs	24,491	23,661	24,073
Management	16,924	14,974	17,978
Negative Subsidy	0	0	0
Transfer to Major Repairs Reserve	21,812	21,893	22,279
Purchase of Properties	0	1,045	0
Interest payable	18,471	18,354	17,998
Revenue contribution to capital expenditure	13,960	13,960	9,712
Other expenditure	1,419	1,340	1,316
Total expenditure	**97,077**	**95,227**	**93,356**
Surplus/deficit for the year	**6,847**	**3,896**	**3,316**
Surplus brought forward	**-7,735**	**-7,735**	**-3,839**
Surplus carried forward	**-888**	**-3,839**	**-523**

Appendix 2

Proposed capital programme 2013/14 to 2018/19

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Adaptations	2,712	2,706	2,754	2,794	2,825	2,887
Central heating	3,124	4,049	4,745	4,133	4,179	4,272
Community Safety and Environmental Improvements	281	343	580	1,131	1,144	1,702
Electrical Installations	1,610	1,659	1,688	1,713	1,732	1,898
External Improvement Programme	8,989	9,241	9,405	9,543	9,648	9,864
Insulation	391	4,350	631	640	362	370
Minor Works	4,031	3,519	2,677	2,716	2,746	2,807
Internal Improvement Programme	3,472	2,407	2,992	3,036	3,069	3,138
New Council Housing	270	2,013	2,766	3,533	5,048	0
Tenants Association	61	81	82	84	85	86
Accommodation and Property	125	324	217	217	0	0
Sheltered Accommodation	0	270	814	0	0	0
Void Property Improvements	13,687	12,133	11,804	11,433	11,559	11,812
Grand Total	**38,753**	**43,095**	**41,155**	**40,973**	**42,397**	**38,836**

Resources

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Borrowing	0	0	0	0	0	0
Major repairs reserve	22,198	22,279	22,558	22,847	23,139	23,428
Revenue contribution to capital	13,960	9,712	10,893	11,797	12,914	9,353
Usable capital receipts	2,890	10,088	8,200	6,838	6,866	6,590
Less usable capital receipts transferred to support private sector housing capital	-472	-484	-496	-509	-522	-535
Other	177	1,500	0	0	0	0
Grand Total	**38,753**	**43,095**	**41,155**	**40,973**	**42,397**	**38,836**

Appendix 3

Detail of the proposed provisional five year housing capital programme 2014/15 to 2018/19

Adaptations

The programme continues to deliver improvements and adaptations to the Council owned homes of persons with disabilities, following referral from occupational therapists.

At current levels of referrals the budget would maintain existing waiting times and would provide around 425 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.

Total budget: £14m over the 5 years 2014/15 to 2018/19

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 is made as affordable as possible for tenants.

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. There are around 500 unheated homes in the borough despite encouraging residents in unheated homes to have central heating installed, and it is estimated that, due to continued tenant refusal, around 125 homes will remain unheated at the end of the five year programme.

The electric night storage heating replacement programme will continue replacing electric night storage heating with modern, efficient gas heating. Over the next two years Council resources will replace around 600 storage heating systems where homes already have a gas supply. Around 4,000 homes over the 5 years will also have a replacement boiler or system upgrade in a programme that will address the older more inefficient boilers and also install additional radiators to partially heated homes as part of this boiler and heating system upgrade programme. It will also deal with an estimated 600 gas boilers and systems that cannot be repaired when they break down.
Total budget: £21.4m over the 5 years 2014/15 to 2018/19

Community Safety and Environmental Improvements Programme

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 and environment projects with around £250,000 investment each year. 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 from 2016/17 to start to address wider estate based improvements.

Total budget: £4.9m over the 5 years 2014/15 to 2018/19

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. A budget of around £250,000 per year is considered sufficient and 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 the rewiring of communal areas in high rise flats and emergency wiring in low rise flats (over 3 storey), with £2m investment over the five years.

Provision is also made to continue the programme of major upgrades and improvements to lifts in high rise flatted developments with over £3.5m of expenditure over the 5 years.

£1m budgetary provision is made over 5 years for a programme of door entry replacement and improvements in low rise flats

The remainder of the programme budget also targets investment in the planned replacement of specialist electrical systems that are beyond economic repair such as necessary improvements to fire alarm systems, lightning conductors; and ensuring warden call equipment purchased remains compatible with new Telecare technology to allow the provision of the essential Homecall service for vulnerable residents of the community.

Total budget: £8.7m over the 5 years 2014/15 to 2018/19

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 £26.5m programme replacing an estimated 13,000 windows each year with modern double glazed windows, and £5.5m replacing external doors that are in significant need of replacement.

Over £3m each year 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.

Total budget: £47.7m over the 5 years 2014/15 to 2018/19

Insulation and Energy Efficiency

The programme 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.

This programme will be used where possible to match fund any Energy Service Providers' funding obligations received by Dudley under ECO (Energy Company Obligations). This delivers carbon saving schemes such as external wall insulation similar to the Community Energy Savings Programme (CESP) schemes already delivered. The match funding contribution is likely to deal with associated enabling and ancillary works not funded by energy companies such as canopies, gates and fencing where and if required.

A £4m scheme will commence in 2014, delivering external wall insulation and double glazing to up to 400 homes, with significant funding estimated at around £1.7m provided under ECO.

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

Total budget: £6.4m over the 5 years 2013/14 to 2017/18 plus any additional energy related resources received from Energy Service Providers.

Internal Improvement Programme

This programme is proposed to continue internal improvements such as kitchen and bathroom replacements and plastering and replacement floors. The five year programme will mainly target maintaining the decent homes standard in kitchens and bathrooms and will therefore prioritise those properties where the kitchen and bathrooms fall into non-decency due to their age and where they are also in poor condition. Each year around 1,000 internal improvements will be carried out.

Total budget: £14.6m over the 5 years 2014/15 to 2018/19

Minor Works

This budget is used to deal with urgent repairs and health and safety issues that arise throughout the year.

Works already identified include dealing with:
- 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);
- Works arising from Fire Risk Assessments to flatted developments;
- Refuse chute replacement to flatted developments.

Total budget: £14.5m over the 5 years 2014/15 to 2018/19

New Council Housing

£13.4m is proposed to deliver over 100 new council homes over the 4 year period to 2017/18.

Two schemes for 17 homes (14 for persons with learning disabilities) are already being progressed at the Walk, Sedgley and Norfolk Rd, Wollaston, part funded by a successful bid made to the Homes and Communities Agency (HCA)

Feasibility studies are under way for a number of other potential sites.

Total budget: £13.4m over 4 years 2014/15 to 2017/18

Tenants' Association

The budget is allocated in each of the five years to schemes identified by Tenants' and Residents' Associations, and prioritised by the Dudley Federation of Tenants' and Residents' Associations. Budgets are maintained at current levels which based on previous years is expected to fund around 40 projects each year.

Total budget: £418,000 over the 5 years 2014/15 to 2018/19

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.

£58.7m over 5 years will fund necessary improvements to homes when they become empty, dealing with asbestos, rewiring, kitchens, bathrooms, plastering and major re-plumbing.

Total budget: £58.7m over the 5 years 2014/15 to 2018/19

Accommodation and Property

£758,000 is proposed to undertake necessary roof and structural improvements over 3 years at the Leys depot, Brierley Hill.

Total budget: £758,000 over the 3 years 2014/15 to 2016/17

Sheltered Accommodation

A review is currently being undertaken of the borough's 11 sheltered accommodation schemes and whilst individual scheme proposals are yet to be developed a provision of around £1.1m is proposed over the next 2 years to start to address the outcomes from the review.

Total budget: £1.1m over the 2 years 2014/15 to 2015/16

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 2014/15 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 planned to be undertaken to develop 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. This is planned to be undertaken during 2014/15.

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[2].

10. The volume of responsive repairs has generally decreased since the back-log of routine repairs was eliminated over the past few 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 start a new build programme, with £13.4m identified up to 2017/18 which is the point at which the Council is required to have delivered Right to Buy replacement at current government requirements. This is currently forecast to be £3.3m expenditure by March 2016 and a further £5m by March 2017. If government rules continue as they are currently (which it is likely that they will for this year at least) then assuming similar levels of sales the Council would need a further £5m of new build by end March 2018.

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.

[2] 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	-461,132	-512,517	-579,865	-656,065	-742,277	-839,818
Other	-6,439	-5,874	-6,298	-6,766	-7,283	-7,854
Total Income	-467,571	-518,390	-586,163	-662,831	-749,560	-847,672
Expenditure						
Management and maintenance (net of retained surpluses	204,198	231,067	256,336	282,484	311,454	343,081
Depreciation and transfer to Major Repairs Reserve	112,715	121,920	134,610	148,620	164,089	181,167
Revenue Contributions to Capital / Debt Repayment	60,321	75,452	105,266	141,774	184,065	233,472
Interest Payments	90,336	89,952	89,952	89,952	89,952	89,952
Total Expenditure	467,571	518,391	586,163	662,830	749,559	847,672
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	Rent loss from void properties 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 from 2013-14 onwards 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 2,700 tenants of working age in receipt of benefits were also affected by benefit restrictions from April 2013 as they were deemed to be under-occupying their property. We estimate that around £2m rent, which was previously paid directly via Benefits, will now be collectable from tenants as a result of the new underoccupancy rules. We have seen an increase in arrears during 2013/14, and are currently projecting that arrears for current tenants will be in the region of £1.7m, compared to £1.2m in the previous year. 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, none of whom currently have housing needs, having been transferred to the new system. At the moment the timescales

	for transfer of more claimants, including those with housing needs, 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	In previous years, we have followed the national rent formula, which allows for a rent increase of September RPI plus 0.5%, plus a further increase to achieve “convergence” i.e. bringing council house rents in line with other social landlord rents. 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 lower rent increase both on the 2014/15 and on future years’ budgets and are confident that this s 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. The government has also recently consulted on proposed changes to the national formula, involving a maximum increase of September CPI plus 1%, the ending of “convergence” from 2014/15 i.e. one year early, and more flexibility for social landlords around charging market rents for more affluent tenants. It is expected that the move from RPI plus 0.5% to CPI plus 1% will be broadly neutral. The ending of “convergence” early would have resulted in a loss of around £1m in rental income in 2015/16. However, the decision to increase rents in 2014/15 by only 1.5% effectively supersedes this, and as noted above we have carefully considered the longer-term affordability of our proposed rent increase. Recent government guidance on the proposed changes to social rent policy make 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 £467m 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 £75,000 per property, and in future years this will increase by inflation annually. The maximum discount for houses will also be 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. 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. 2014/15 is the last year of the current arrangements, under which councils are required to contribute a share of Right to Buy capital receipts to the Treasury. As yet, we have had no guidance on proposed arrangements from 2015/16 onwards. There is a risk to future new build investment, should funding arrangements change to our disadvantage.
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. The government has announced that it will allow housing authorities to exceed their borrowing cap in order to undertake new housing developments. At this stage, we are awaiting detailed guidance before making any decisions on whether or not to pursue this option. Additional borrowing is likely to be agreed following a bidding process, working with Local Enterprise Partnerships, and the total increase in borrowing is likely to be around £300m.
Unforeseen costs or costs	Any unbudgeted costs would have to be met from

greater than estimated	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 2013/14	**Forecast 2014/15**	**Forecast 2015/16**	**Forecast 2016/17**
Ratio of financing costs to net revenue stream: HRA	20.1%	20.0%	19.3%	18.8%
Estimated incremental impact of capital investment decisions on HRA weekly rents	N/A	N/A	N/A	N/A
Capital expenditure: HRA	£38.8m	£43.1m	£41.2m	£41.0m
Capital Financing Requirement: HRA	£467.1m	£467.1m	£467.1m	£467.1m

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. There are currently no proposals to undertake new borrowing as this is not possible within the limits imposed on the HRA CFR as part of self-financing.

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 £467.1m.

Partnerships

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 CO2 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 (eg gas servicing, maintenance and repairs).
- A strategic partner is also planned to assist in the delivery of new build homes .

20. Procurement consortia and other partnership arrangements will also continue to be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.

Dudley
Metropolitan Borough Council

Meeting of the Council - 24th February, 2014

Report of the Cabinet

Dudley Business Investment Zone

Purpose of Report

1. To consider the proposals of the Cabinet regarding the creation of a Dudley Business Investment Zone at the Waterfont area of Brierley Hill.

Background

2. Following exclusion of the South Black Country elements from the approved Black Country Enterprise Zone (as part of the Government's national Enterprise Zone initiative), Cabinet approved (on 14th March 2012) the principle of a designated zone at the Waterfront in Brierley Hill where a business rate incentive would be used to stimulate investment, growth and jobs. Cabinet also authorised the Directors of the Urban Environment and Corporate Resources, in consultation with the appropriate property owners, to undertake further work in relation to this initiative and to report back to Cabinet with a detailed management and operational plan (attached as Appendix 3).

3. Whilst Cabinet approved the principle, subject to further feasibility, of approaching the initiative in three phases (Waterfront, Waterfront II and Harts Hill) it was agreed that initial work would focus upon the existing office park at The Waterfront (the location plan is attached as Appendix 1). A plan of the three phases is attached as Appendix 2.

4. Brierley Hill is designated as the Black Country's strategic centre in the Black Country Core Strategy (BCCS). The BCCS also provides the planning framework for an additional 1million sq ft of office space within the area, with the scope to create over 6,000 new jobs.

5. At the Waterfront, there is some 650,000 sq ft of high quality office accommodation, of which approximately 200,000 sq ft is currently vacant.

6. From April 2013, the business rates retention scheme enables local authorities to retain a proportion of locally collected business rates to help fund the services they provide. The Dudley Business Investment Zone will be an important scheme in promoting the long term development of the Borough's business rate base.

Scheme Overview

7. The Dudley Business Investment Zone would operate on the basis of a two-year business rate free period, subject to State Aid limits, for new occupants of vacant space in the designated area.

8. The cost of the business rate incentive would be shared equally by the Public Sector (Central Government 25%, the Council 24.5%, West Midlands Fire Authority 0.5% and the property owners 50%).

9. The lifetime of the scheme is proposed to be five years, commencing 1st April 2014 and ending on 31st March 2019. Therefore, to get the full two-year benefit of the scheme, businesses would have to take occupation of premises in the designated area by 31st March 2017.

10. The Council reserves the right to review the period of duration or operation of the scheme, and this can be changed by the Council at any time if it so decides.

Management Framework

11. To maximise the overall contribution of the scheme and to minimise financial cost and other risks to the Council, a draft management framework has been developed (Appendix 3).

12. It is proposed that the Dudley Business Investment Zone would be managed by the Council via a Management Board, the composition of which is to be determined.

Operating Model

13. An options appraisal for delivering the scheme has been undertaken. Legal advice has confirmed that the proposed operating model is compliant with appropriate legislation.

Financial Model

14. The financial implications of the scheme are set out below. The model utilises information on rateable values and expected business rate revenues generated by the Council as at 1st December 2013. All of the analysis has been undertaken using 2013 prices. That is, no allowance is made for the effects of inflation over the lifetime of the scheme.

15. The model is based on acceleration in the letting of office floorspace after the first year, with the net effect that the 200,000 sq ft of floorspace, available at the commencement of the scheme, is let in four years. Whilst it is difficult to be precise about the rate of occupation, it is considered that this estimate represents a 'worst case' scenario for the Council in terms of financial liability.

16. Under this scenario the assumptions are that the estimated gross cost of the incentive over the lifetime of the scheme - once the implications of the State Aids limit is factored in - would be £1.123 million, of which the Council's share would be £0.275 million (24.5%). At peak, the maximum annual value of the scheme is expected to be £0.315 million in Year 4 (2017/18), implying costs of £0.077 million for the Council.

17. The maximum discount available to any occupier would be subject to the de minimis exemptions allowed under EU State Aid rules. The maximum discount that can be provided is approximately £165,500 over 3 years.[1] However, in the case of the proposed scheme, the maximum proposed discount is set at £55,165 per year over a

[1] Based on the *de minimis* threshold of €200,000 and an exchange rate of €1.2085:£1.00, as at 3rd December 2013

two year period (i.e. £110,330 in total), which is the average annual de minimis rate applied over two financial years only.

18. It will be the Council's responsibility to ensure that there is no breach of the State Aid Regulations.

19. The model is very sensitive to this assumption in paragraph 17. The estimated costs of the scheme are based on a central case of 50% of the new occupiers being subject to the State Aids maximum threshold. If none of the occupiers were subject to the State Aids maximum threshold, then the cost to the Council would be £0.483m rather than £0.275m.

Proportion of Occupiers subject to State Aids maximum threshold	Cost to Council of incentives £m (2014/15-2018/19)
0%	0.483
25%	0.379
50% (central case)	0.275
75%	0.173

20. The risk set out in paragraph 19 will be managed in two ways:

- The scheme would be closed early to new entrants if potential costs to the Council threatened to exceed available financial resources; and

- The scheme will be managed to give priority to larger lettings.

Through the above mitigating actions, the risk to the Council is reduced to a minor risk in the risk assessment for the project.

21. The key results of the financial plan from the perspective of Dudley Council are as follows:

- The gross cost to the Council of providing the business rate incentives at The Waterfront is estimated at £0.275m (based upon the 50% letting subject to the State Aids maximum).

- Post 2019, the strategy is based on the potential for longer term growth of net business rate revenue resulting from the development of the planned future phases for the area. This would allow for the collection of business rates on approximately 1.4 million sq ft of premises in total rather than the current 650,000 sq ft, as a result of expansion of the existing campus.

22. If significant amounts of floorspace in the area are lost to other, non-employment yielding land uses (such as through the conversion of some or all of the building for residential purposes) then the results presented in the financial model will be re-calculated to take on board the potential loss of business rates revenues and/or economic benefits.

Economic Benefits

23. There are two key potential economic development outcomes for a successful scheme.

These are:

- The opportunity to maximise the job hosting potential of currently available floorspace at The Waterfront; and

- The opportunity to maximise the value of economic output (Gross Value Added)[2]

24. The gross employment yielding potential of the 200,000 sq ft of floorspace currently vacant at The Waterfront is estimated to be approximately 1,400 jobs.

25. The knock-on benefits of these jobs, in terms of stimulus to other businesses through supply chain impacts and expenditure by workers, are estimated to amount to a further 200 gross indirect jobs in the local economy.

26. The overall cumulative impact in terms of gross employment (direct plus indirect) is estimated to be approximately 1,600 in the wider local economy, when the eligible floorspace is fully occupied.

27. In terms of <u>net</u> additional employment, it is expected that 1,160 jobs could be generated for Dudley MBC residents.

28. The net addition to the value of the local economy by the same year is expected to be £68.8 million per annum (in 2012 prices).

29. Another key benefit of the scheme is that, by increasing occupation levels at the Waterfront, the viability of the next phase of office development in the area (up to a further 750,000 sq ft) is increased and meaningful discussions with potential development consortia can commence.

Consultation

30. There have been ongoing discussions with Council Officers and the two major Waterfront property owners during the development of the scheme.

31. An initial written consultation exercise was undertaken with the ten minority property owners in December 2012, from which four responses were received, all in support of the scheme.

32. Detailed consultation on scheme proposals took place with Waterfront property owners and property agents between November and December 2013. Overall, the response to the presentation of proposals was very positive and owners welcomed the fact that the Council is suggesting measures and committing resources to help to overcome the decline in occupation of The Waterfront.

Complementary Investment Strategy

33. Work will be undertaken to identify potential regeneration initiatives for The Waterfront that will complement the scheme, aiming to encourage more businesses to locate at the site and take up vacant premises and broaden the range of uses in The Waterfront in

[2] Gross Value Added is a measure of the value of economic output in the economy, and is conventionally used across the EU to measure the value of economic activity in sub-national areas (regions, sub-regions, etc.) or the value of production of particular industries.

response to changed market conditions consistent with the evolution of the Brierley Hill area as a mixed commercial and residential centre.

Permitted Development Rights

34. On 6 September 2012 the Government announced, as part of a package of measures to support economic growth, that permitted development rights would be introduced to better enable change of use from commercial to residential purposes. The changes came into force on 30th May 2013.

35. The new rights are for a time-limited period of three years, and the Government will consider towards the end of that period whether they should be extended indefinitely. The change has been accompanied by a tightly drawn prior approval process which will cover significant transport and highway impacts, and development in areas of high flood risk, land contamination and safety hazard zones.

36. Alongside the new permitted development rights, the Government announced that local authorities would be given an opportunity to seek an exemption for specific parts of their locality. The Council applied for an exemption for designated high quality employment areas and the Waterfront area. This application, in common with the majority of others around the country, was unsuccessful.

37. Whilst the Council would not necessarily resist applications for change of use in rational locations, or self -contained areas, the permittance of sporadic conversions could prejudice the letting of adjacent office space.

38. Article 4 of the Permitted Development Order (as amended in 2010) allows a Local Planning Authority (LPA) to apply a Direction to withdraw the permitted rights granted by the Order, where it is satisfied it is expedient that development should not be carried out, unless permission is granted for it by application.

39. Ensuring that the change of use or any demolition of the building(s) requires planning permission does not necessarily prevent such development taking place but it will allow the LPA some control to fully consider the wider implications of the works, and ensure that the views of others, with an interest in this matter, are able to be fully taken into account before a decision is taken.

40. It is therefore proposed that, should the Council consider that there are exceptional circumstances to do so, the Council apply an Article 4 Direction to control demolition and change of use of The Waterfront (except for the Point North building which will be subject to controls over demolition only due to the recent planning approval for residential conversion).

41. A report on the above will be taken to the Development Control Committee on 17th February 2014.

42. On consideration of the information contained in this report, the Cabinet, at its meeting held on 12th February, 2014, resolved to recommend the Council to approve the proposals set out in paragraph 53 below.

Finance

43. Local authorities have been given new powers to award further discretionary reliefs under the Localism Act 2011. The government will pick up 50% of the cost of this relief and therefore the net cost to Dudley, (based upon the assumption of 50% of new occupiers will be subject to state aid limits) is estimated to be £0.275m.

44. The cost to the West Midlands Fire Authority of awarding this discretionary relief is estimated to be £5,600 (based upon the assumptions in this report).

45. As stated in paragraph 13, the financial model is sensitive to the assumption that 50% of occupiers will be subject to state aid limits. In the worst case scenario where none of the occupiers will be subject to state aid limits, then the cost to the Council is estimated to be £0.483m. However, the mitigating actions set out in paragraph 20 significantly reduce this risk.

46. The overall cost may also vary if rateable values in the Business Investment Zone decline or recover more than the assumptions used at the time of writing this report. The cost to property owners participating in the scheme is estimated to be £0.562m based upon the assumptions used.

47. The scheme will close on 31st March 2019. Business rate discounts offered to tenants before 31st March 2017 will apply for the normal two year maximum period. After 31st March 2017, the business rate discount will be applied on a reducing basis up to 31st March 2019.

Law

48. Pursuant to Section 1 of the Localism Act 2011, the Council has the general power of competence to do anything that individuals generally may do.

49. Section 69 of the Localism Act 2011 amends section 47 of the Local Government Finance Act 1988 to allow local authorities to reduce the business rates of any local ratepayer.

50. A Direction is made under Article 4(1) of The Town and Country Planning (General Permitted Development) Order. Before making an Article 4(1) direction, the Council as local planning authority must consider it expedient that development should not be carried out without a planning application first being made and approved. (An article 4(1) direction can relate to specific or general development).

51. The law is clear that permitted development rights should only be withdrawn in exceptional circumstances. However, an Article 4 direction does not constitute an absolute prohibition of development; it simply requires that an express application for planning permission is to be made and then considered on its merits.

Equality Impact

52. This work has been conducted in full accordance with the Council's equality and diversity policies and should in no way have any prejudicial impact on different racial groups, disabled people, both genders and/or other relevant groups.

Recommendations

53. It is recommended:-

- That the Council's approval be given to create a Dudley Business Investment Zone at the Waterfront area of Brierley Hill from the start of the 2014/15 financial year.

- That the Cabinet Member for Regeneration be authorised to determine the composition of the Management Board.

- That the Directors of the Urban Environment and Corporate Resources, in consultation with the Cabinet Members for Regeneration and Finance, be authorised to:

    - Negotiate and enter into the required legal agreements for the Dudley Business Investment Zone.

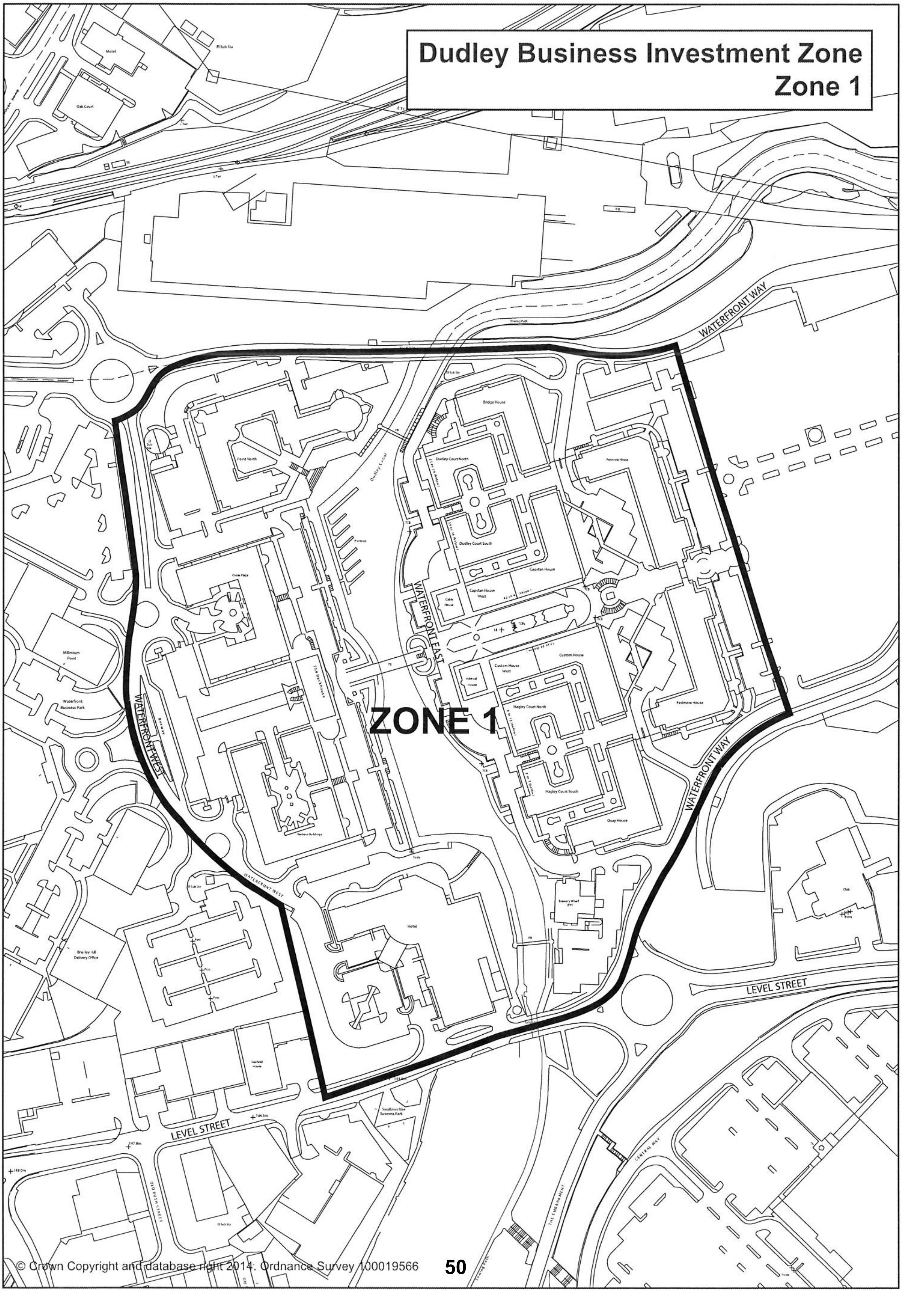
    - Create appropriate delegations for the financial administration of the Dudley Business Investment Zone.

    - Update and amend the draft management framework.

    - Amend the Council's discretionary rate relief policy to allow the reduction in business rates for businesses within the designated area for the Dudley Business Investment Zone, as detailed above.

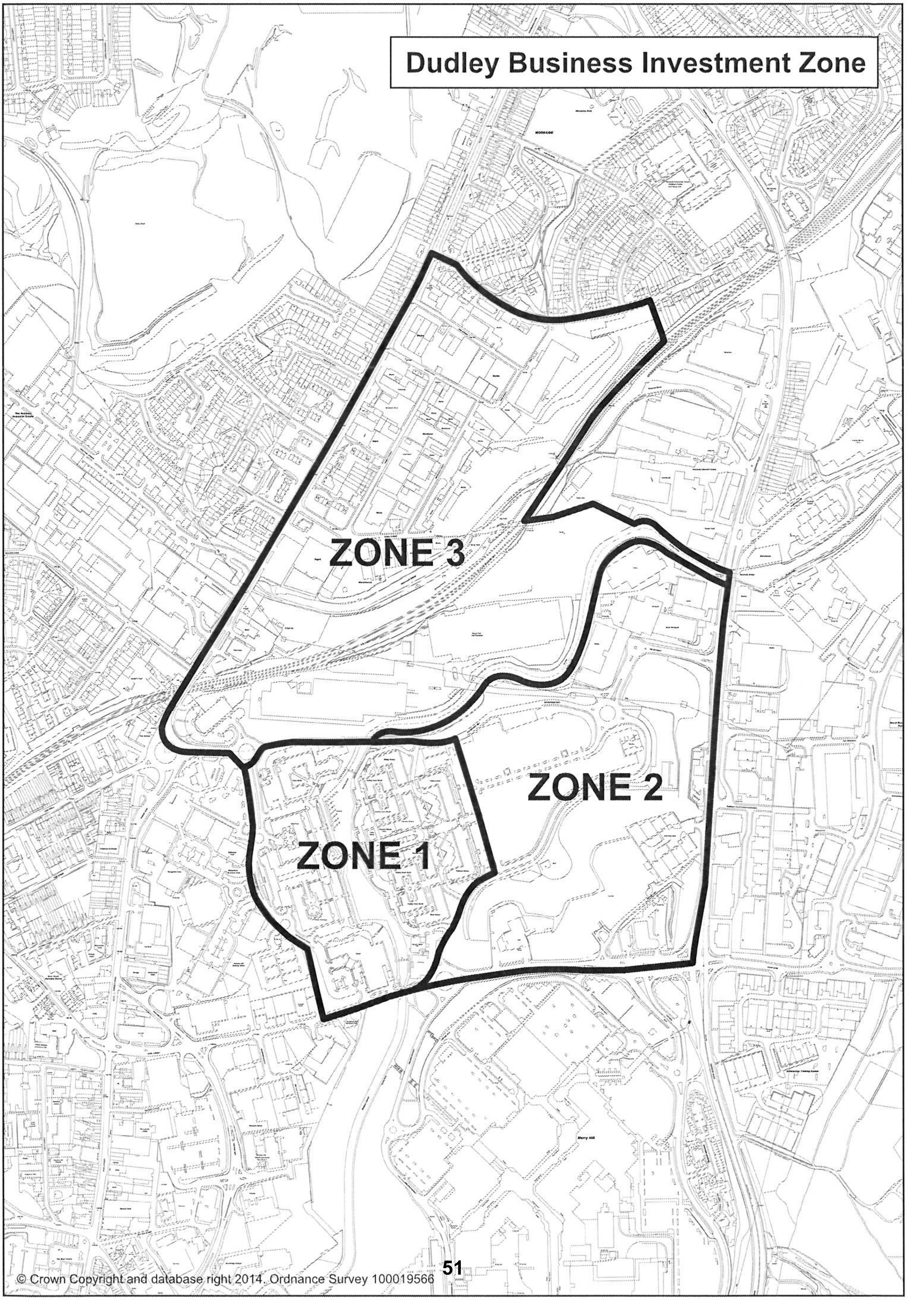
…………………………
Leader of the Council

Appendix 1



Dudley Business Investment Zone
Zone 1
ZONE 1
WATERFRONT WAY
WATERFRONT EAST
WATERFRONT WEST
LEVEL STREET
© Crown Copyright and database right 2014. Ordnance Survey 100019566

Appendix 2


Dudley Business Investment Zone
ZONE 3
ZONE 2
ZONE 1
Merry Hill

Appendix 3

DRAFT
Dudley Business Investment Zone
Management Framework

1. Scheme Overview

The scheme will operate on the following basis:

1.1 100% business rate discount, up to State Aid limits, available for new occupiers[1] that commence occupation in properties within the designated Zone, for a maximum period of 2 years after the occupancy begins.

1.2 The lifetime of the scheme is 5 years, commencing 1st April 2014 to 31st March 2019. The Council reserves the right to review the period of duration of the scheme.

1.3 The cost of the business rate incentive is to be shared equally by the Council and the Participants[2].

2. Qualification Criteria

2.1 The scheme is open to all prospective occupiers locating in properties within the designated Zone, as specified on the Zone map (Zone 1). Businesses already located in Dudley Borough and proposing to relocate to a property/properties in the designated Zone must provide a business case to demonstrate additional jobs growth and that any move is not solely for the purpose of business rates avoidance.

3. Terms & Conditions

3.1 The scheme will be managed by the Council and its key partners via a Management Board.

3.2 The scheme will focus on vacant properties/floorspace within the designated area. In terms of the boundary of the area of eligibility, a clear line of demarcation will be prepared and published upon scheme commencement so that it is clear to all parties which properties - and, if relevant, space within properties - are potentially eligible to receive business rate discounts, and which are not. No discounts will be offered for floorspace that is occupied at the time of the scheme designation. There will be six monthly reviews within this boundary with Participants to identify any additional vacant properties/floorspace and, where this is identified, a decision will be taken on inclusion within the scheme, based on affordability.

3.3 The Council reserves the right to amend the boundaries of the designated area at any time. The Council will retain discretionary control over the inclusion of space which becomes vacant during the life of the initiative.

3.4 Within the designated area, the business rate discount will only be available where a legal agreement is in place between Dudley MBC and the Participant. The legal agreement will set out the roles and responsibilities of each party.

---

[1] Occupier means any entity that is in rateable occupation or otherwise liable to pay business rates in respect of any heriditament within the property.
[2] The Participant is the registered proprietor of the freehold or long leasehold interest in the property which is situated in the Zone.

3.5 So that the business rate discount provides a real incentive to would-be occupiers, the Participants agree not to increase rental levels and service charges for the 2-year duration of the scheme for individual occupiers.

3.6 The offer of the scheme discount to a prospective occupier will be made on a first and final offer basis, with no appeals allowed.

3.7 Existing occupiers at The Waterfront who intend to expand their operations on the site may be eligible for the discount but only on any extra floorspace they occupy over and above the area occupied at the time the Zone was declared. That is, if they vacate floorspace elsewhere at The Waterfront and move into space within the designated Zone, they will only receive a discount based on the additional floorspace that will be occupied, calculated on the average rateable value per square metre of the property as a whole. Any decision on offering incentives to existing occupiers who move in this way is at the discretion of the Council.

3.8 The scheme will close on 31st March 2019. Business rate discounts offered to occupiers before 31st March 2017 will apply for the normal two year maximum period. After 31st March 2017, the business rate discount will be applied on a reducing basis up to 31st March 2019.

3.9 The business rate discount only applies to floorspace included within the scheme that is occupied during the period of eligibility. The scheme will operate on the basis of a minimum 5-year lease agreement. If a qualifying occupier vacates the premises within the two year period but still holds the lease, the discount eligibility will become void from the date of vacation, and the qualifying occupier will be liable to pay empty rates as usual, after the exemption period. If a qualifying occupier vacates the premises within the two year period and no longer holds the lease, the Participant will be liable to pay the empty rates, after the exemption period.

4. State Aid De Minimis Regulation

4.1 The maximum discount available to any occupier would be subject to the de minimis exemptions allowed under EU State Aid rules. The maximum potential discount could be approximately £165,500 over 3 years (based on the de minimis threshold of €200,000 and an exchange rate of €1.2085:£1.00, as at 3rd December 2013). However, the maximum discount available under the proposed scheme is assumed to be £55,165 p.a. over two years (i.e. £110,300 in total), which is the average annual de minimis rate applied over two financial years.

4.2 It will be the Council's responsibility to ensure that there is no breach of the State Aid Regulations.

Dudley
Metropolitan Borough Council

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 – 24th February 2014

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 2013/14 up to the end of December;
    - to seek approval of the Treasury Strategy Statement 2014/15.

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 £770m on our own account and another £190m on behalf 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 during 2014-15.

Treasury Activity 2013/14 - Dudley fund

5. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2013/14 approved by Audit Committee and Full Council in February 2013. 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 the middle of January have averaged £44.09 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.54%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2013/14. 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 0.36%. Our investment activity for 2013/14 (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 2013 was £537.5 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 2013-14 from 4.04% to 4.71% and was standing at 4.54% 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 2014-15.

11. The Council has used short term borrowing on 6 occasions in the year to date to manage daily cash flow. The average value of the borrowing has been for £1.9m at an average rate of 0.41% for an average duration of 18 days. Daily cash balances have been mainly managed through the use of call accounts.

---

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

Treasury activity 2013/14 - 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 5 occasions in the year to date to manage daily cash flow for the WMADF. The average value of the borrowing has been for £2.7m at an average rate of 0.39% for an average duration of 77 days. The latest estimate of interest payable by members of the WMDAF in 2013/14 is 6.5%.

Treasury Strategy Statement 2014/15

13. 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 2014/15 is attached as **Appendix 2**.

14. 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 end of 2015/16.
- **Long-term rates.** 20-year Government gilt rates will rise in 2014/15 from 3.30% to 3.50%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2014/15 from 3.50% to 3.70%

15. 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 & 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.

16. 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.

17. The Audit and Standards Committee will consider this report at its meeting on 13th February, 2014. Any changes to the recommendations will be reported to the full Council meeting.

Finance

18. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates. Budgets were amended in October 2013 to reflect a surplus of £1.5m compared to the original budget for 2013/14. This surplus was mainly due to variations in cash flow.

Law

19. 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

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

Recommendation

21. That the Council:

- notes the treasury activities in 2013/14 outlined in this report;
- approves the Treasury Strategy 2014/15 attached as Appendix 2;
- authorises the Treasurer 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 2013/14 to 5th January 2014

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	22	8.10	0.36	23
Debt Management Office	34	6.90	0.25	14
Nationwide Building Society	14	8.50	0.38	31
Bank of Scotland Call Account	N/A	11.9	0.62	Call
Yorkshire Bank Call Account	N/A	0.01	0.50	Call
Santander Call Account	N/A	0.37	0.40	Call
Nat West Call Account	N/A	0.01	0.61	Call
HSBC Call Account	N/A	7.8	0.32	Call
Salford City Council *	1	0.5	11.25	Matures in 2020

The table above includes investments that commenced during 2012/13 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 2014/15

1.0 Introduction

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2014/15. 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 2014 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	505.8
- PWLB variable rate	13.0
- Market fixed rate	6.8
- Market LOBO[2]	10.0
Short-term debt	50.0
Total debt	585.6

2.2 The average rate of interest on the above debt is expected to be 3.95%.

[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 2013/14 to early January 2014 was £44.09m. 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 2014 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	169.9
- Market fixed rate	6.8
- Market LOBO[3]	10.0
Short-term debt	0.0
Total debt	186.7

2.5 The average rate of interest charged to the West Midlands fund is expected to be 6.5%.

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.

[3] Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2007 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.

Actual external debt represents the closing balance for borrowing and other long-term liabilities.

	2012/13	2013/14 Revised	2014/15 Revised	2015/16	2016/17
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	926	919	898	876
Other long term liabilities	n/a	38	39	40	41
Total	n/a	**964**	**958**	**938**	**917**
Operational boundary:					
Borrowing	n/a	811	817	855	855
Other long term liabilities	n/a	37	39	40	41
Total	n/a	**848**	**856**	**895**	**896**
Actual External Debt:					
Borrowing	737	n/a	n/a	n/a	
Other long term liabilities	3	n/a	n/a	n/a	
Total	**771**	**n/a**	**n/a**	**n/a**	

Gross Debt and the Capital Financing Requirement:

This is a new 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 2013/14, 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.

	2013/14	**2014/15**	**2015/16**	**2016/17**
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 Prospects for Interest Rates

4.1 The Council has appointed Arlingclose as its treasury advisor and has made use of their services in formulating a view on interest rates.

4.2.1 Our expectations 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 end of 2015/16.
- **Long-term rates.** 20-year Government gilt rates will rise in 2014/15 from 3.30% to 3.50%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2014/15 from 3.50% to 3.70%

5.0 Economic Background

5.1 The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain "knock-outs" (certain assumptions about future inflation and financial stability continuing to remain valid). The unemployment rate has fallen to 7.1%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.

5.2 The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.0 % in December 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending. The reduction in inflation will also ease pressure to increase the bank rate in the short term.

5.3 Stronger GDP growth data of 1.9% in 2013 alongside a pick-up in property prices, mainly stoked by government initiatives to boost mortgage lending, have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

5.4 In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

6.0 Credit outlook

6.1 The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a "haircut" on its conversion bail-in to alternative securities and/or equity.

7.0 Interest rate forecast:

7.1 Arlingclose's projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of the forecast horizon. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

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

8.0 Annual Investment Strategy

8.1 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.

8.2 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 investment balance has ranged between zero and £84 million. It is expected that cash balances will be at lower levels in 2014-15 due to the reducing budget, use of reserves and the cumulative effect of successive years of internal borrowing.

8.3 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.

8.4 *Strategy for "specified investments"*

8.4.1 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 virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003.
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

8.4.2 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), and a support rating of 1 from Fitch.

8.4.3 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.

8.4.4 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.

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

.

8.4.5 Due to the on-going stress and uncertainty in financial markets, the Council's investments must also satisfy all the following more stringent conditions:

- The Council will not invest in non-UK institutions

- 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

- Investments of a maximum duration of 1 month are permitted with UK institutions which meet the criteria of 6.4.2 above but do not have the highest short term credit rating from all three main credit rating agencies

8.4.6 If conditions in the financial markets worsen during 2014-15 or other factors indicate that increased security of Council funds is required, the Treasurer may impose tighter restrictions on the type of investments and institutions used by the Council, than those detailed in this strategy.

8.4.7 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.

8.5 *Strategy for "non-specified investments"*

8.5.1 Non-specified investments are those that do not meet the criteria in 6.4.1 above.

8.5.2 In determining which categories of non-specified investments may prudently be used, we will take account of:

- Advice from our treasury management consultants at Arlingclose.
- The views of experts at other councils.
- To the extent that investments are for a duration of 12 months or more, long-term credit ratings as determined by Fitch.

8.5.3 Due to the current period of stress in financial markets, the Council will not place its funds in non-specified investments.

8.6 *Liquidity of investments*

8.6.1 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 in a future year that we would not otherwise have had to borrow.

8.6.2 We will ensure that, at the time of making a new investment, long-term investments (investments of one year's duration or more) constitute no more than 50% of our total pool of investments.

8.7 *Limit on investments with a single institution*

8.7.1 In order to limit the Council's exposure to a single default, investments with a single institution or group of banks should not exceed 20% of our total pool of investments or £5million (whichever is greater).

9.0 Policy on the Use of Financial Derivatives

9.1 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).

9.2 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.

9.3 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.

10.0 Requirements and Strategy for Long-Term Borrowing

10.1 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.

10.2 Our interest rate expectations (outlined in 4.2) 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 2014/15, 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.

10.3 Against this background caution will be adopted with the 2014/15 treasury operations. The Treasurer 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

10.4 With respect to the West Midlands Debt, variances due to timing differences between the maturity profile of the debt and repayments from authorities can be managed by short term borrowing in 2014-15. As a result, we do not anticipate that further long-term borrowing will be needed during 2014/15. We shall take out long term borrowing on West Midlands debt when it is economically advantageous to do so.

11.0 Debt Rescheduling and Premature Repayment Opportunities

11.1 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).*

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

12.0 HRA Self Financing

12.1 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.

12.2 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.

13.0 **Training**

13.1 CIPFA's Code of Practice requires the Treasurer 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.

13.2 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 Treasurer will recommend and implement the necessary arrangements.

14.0 Treasury Management Advisors

14.1 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.

14.2 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

14.3 The Authority 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