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WREXHAM COUNTY BOROUGH COUNCIL

2012/13 BUDGET

**Report of
Head of Finance**

BACKGROUND

1. The local authority budget planning process in Wrexham, as elsewhere, requires an early view to be taken about the Council's budget prospects based on national economic indicators and government planning totals for local authority spending.
2. The budget planning process for 2012/13 was agreed and a review of the Council's financial prospects were considered by the Council's Executive Board in June 2011. In view of the anticipated significant spending reductions over the medium term, service reviews, which involved each service undertaking a strategic review of their operations, took place during the last financial year. The service reviews identified savings for the 2012/13 financial year and these together with Transformation programme savings were shared with members at a number of all member budget workshops during the Summer.
3. The medium term financial plans have been developed using the following parameters:
 - An assumed increase in grant funding of 1.2% in 2012-13 followed by increases of 1.31% and 0.55% in 2013-14 and 2014-15 respectively.
 - Estimated inflation assumptions:
 - teachers' pay award of 0% for 2012-13, 1% for 2013-14 and 2014-15.
 - non-teachers' pay award of 0% for 2012-13, 1% for 2013-14 and 2014-15.
 - price increases of around 3% for 2012-13, 2013-14 and 2014-15.
 - That the unhypothecated Outcome Agreement grant will be received in all three years.
 - Known unavoidable commitments
4. The medium term financial plan will be reviewed on a periodic basis.

Review of the Current Year 2011/12

5. The budget for the year was cash limited at £208,608,688.
6. The budget has been closely monitored and controlled during the year in accordance with the procedures approved by Council. A number of service pressures and increased costs were identified early in the financial year and it was agreed by the Executive Board that action should be taken by officers to control spending and to keep service spending within the approved cash limited budget totals.

(ii)

7. All budgets will continue to be carefully scrutinised in accordance with the agreed procedures and the actual outturn will be reported in the summer. In accordance with the rules of cash limited budgeting, any over or underspending may be carried forward to 2012/13.

Welsh Government (WG) Revenue Settlement

8. The grant allocation for individual authorities is dependant on the standard spending assessment (SSA) formula. For 2012/13 there were no significant changes to the formula.
9. The WG announced its provisional revenue settlement details for local authorities on 18 October 2011. The provisional settlement gave local authorities on average a 0.24% grant increase, which was as anticipated. WG announced its final revenue settlement for 2012/13 on 7 December 2011 and was broadly unchanged on the provisional settlement.
10. The Local Government Finance Act 1992 gives the Minister for Social Justice and Local Government, power to limit or cap the budget requirement of any local authority, which he considers to be excessive. The Minister has made no announcement relating to assumptions about the Council's spending level for 2012/13. The Council's standard spending assessment, the notional assessment for grant distribution purposes of the Council's need to spend on its services, totalled £213,180,422.

2012/13 Budget

11. The budget for next year as outlined on page (vi) has been built up in accordance with the framework agreed by Council. The budget in the current year (i.e. the cash limited budget amended for the transfers of grants into the Revenue Support grant) has been adjusted for the cost of inflation, unavoidable commitments and savings.
12. The total net revenue expenditure is estimated at £211,890,182 and represents an increase of £3,250k (1.56%) of the current year's adjusted net revenue budget. Page (vi) also demonstrates the Council's budget requirement at £210,512,037.
13. It is a requirement of the Local Government Act 2003 that I should report to members on the robustness of the estimates made for the purpose of calculating the net budget requirement. I should therefore draw your attention to a number of key risk areas that I have identified in the budget and how these may be managed. These are outlined on page 14. Issues relating to these key risks will be reported to members during the forthcoming year as necessary as part of the budget monitoring and control procedures.

Reserves and Balances

14. A local authority requires a prudent level of working balances to maintain adequate cash flow, especially during the first part of the financial year prior to the receipt of council tax income, and to meet unforeseen expenditure.
15. There are no planned contributions to balances for 2012/13. However, I am satisfied that the level of balances and reserves is adequate for the forthcoming financial year and the authority's medium term financial strategy.

(iii)

16. There is still uncertainty on the impact of energy inflation costs and the reduction in specific grants on the Council's budget.
17. An analysis of the Council's key estimated earmarked reserves and balances for the year ahead is as follows:

	Actual Balance at 1 April 2011 £k	Estimated Balance at 1 April 2012 £k	Movement in year £k	Estimated Balance at 31 March 2013 £k
Council Fund balance	7,018	6,987	0	6,987
School Balances	980	1,123	0	1,123
Service Reserves	1,273	850	(850)	0
Other Earmarked Reserves (excluding grant reserves)	13,447	11,656	(1,641)	10,015
Total Balances and Reserves	22,718	20,616	(2,491)	18,125

18. The estimated balances at 1 April 2012 in the table above are based on the best estimates available at the time of writing the report. The movement in the Council Fund balance includes the reported position in the current year. The reported position will change following the closure of the 2011/12 accounts and will be reported to members after the end of the financial year. Of the 2012/13 in year planned movement on service reserves of £850k none will be used to fund recurrent expenditure.
19. The above analysis does not assume any use of general balances for back pay liabilities following the Single Status and Equal Pay review. If these or any other liabilities exceeded the earmarked allocations then clearly these general balances would be called on.

Income

20. **Revenue Income Support Grant** – The County Borough's share of the final Revenue Support Grant has been set at £126,795,846.
21. **Business Rates** – The business rate poundage for 2012/13 has been set at 45.2p in the £. The County Borough's share of national non-domestic rate income in 2012/13 is £36,279,812.
22. **Outcome Agreement Grant** – This grant has been distributed to all local authorities on the basis of current standard spending assessments and this Council's share is £1,298,145.
23. In total the Council will receive general grants from the WG of £164,373,803.

Council Tax

24. After taking account of the general grants and contribution from balances, the balance of net expenditure totalling £47,516,379 remains to be funded by council taxpayers.

25. It is proposed to charge as a special expense part of the cost of footway lighting to the four community areas within the town (£4.28 at band D).
26. After adjusting for special expenses of £68,418 the balance to be found as general expenses from council taxpayers is £47,447,961.
27. The council tax base calculation was agreed by the Executive Board on 1 November 2011 for 2012/13, as 51,983 band D equivalent properties after allowing for:
- band reductions for the disabled
 - exempt properties
 - single occupier discounts
 - double discounts on unoccupied properties
 - factors to reflect the relative charge at different bands
 - the estimated collection rate
 - contributions in lieu from Ministry of Defence

The overall tax base is built up from the same calculations for each of the 34 community areas and the “band D equivalents” are shown on page (vii).

28. Dividing the balance of net expenditure (£47,516,379) by the tax base of 51,983 will give a £914.08 charge to be borne by a full-paying household whose home is valued at band D. For band A property the charge is six ninths of this figure through to band I properties where the charge is twenty one ninths of the band D figure. In many cases these figures will be adjusted for disabled and other discounts and, of course, for council tax benefit.
29. Page (vii) sets out the council tax rate for the band D taxpayer for each community council area and shows that when the police authority’s precept is included, the total average council tax at band D for 2012/13 is £1,165.98.

CONCLUSION

30. Although the financial settlement for 2012/13 only provides the capacity for the Council to set a budget which includes unavoidable commitments and limited service pressures, every effort has been made to protect social care services and schools.
31. The Local Government Act 2003 requires the Council to monitor its budget and to take appropriate action. The budget will therefore require close monitoring and control during the year and the financial position will need to be kept continuously under review.
32. Finally, I remain very grateful to all Members and Officers for their assistance, cooperation and hard work in helping to prepare this budget.

**M S OWEN
HEAD OF FINANCE**

SERVICE REPORTING CODE OF PRACTICE FOR LOCAL AUTHORITIES

1. The cash limited budgets in column (g) on page (vi) have been recast to comply with the Service Reporting Code of Practice for Local Authorities (SeRCOP). This has a particular impact on central costs and support services.
2. Both central and departmental support costs have had to be fully recharged to the services which they support. This is reflected in the addition of column (h) on page (vi) and in the body of the budget pages.
3. It should be noted that Corporate & Customer Services, Finance, Repairs & Maintenance and Property Consultancy / Asset Management within Asset & Economic Development and School Transportation within Environment are fully recharged and show net budgets of nil.
4. As part of the Code, the central costs have been re-arranged into:
 - Corporate & Democratic Core (including Democratic Representation & Management and Corporate Management)
 - Non Distributed Costs (including Past Service Costs and costs associated with unused shares of IT facilities)
 - Central Services to the Public (including Council Tax collection costs, Coroners, Electoral Registration etc.)
 - Other Operating Income & Expenditure (including levies from other bodies and capital financing).
5. Obviously, these are extremely significant changes but the underlying spending power of services remains exactly as approved by Council. One of the primary purposes of the change is to permit greater inter-authority comparability in the future.
6. During 2011/2012 the Management structure was changed following a management review. The budget book has been produced to reflect the new structure.

(vi)
Revenue Budget Summary 2012/13

	2011/12 Cash Limited Budget	Functional Changes & Virements	2011/12 Cash Limited Budget after Functional Changes	Inflation	Unavoidable Commitments/ Service Pressures	Service Savings	2012/13 Cash Limited Budget	2012/13 Recast Budget
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	£	£	£	£	£	£	£	£
1 Environment	23,863,559	7,000	23,870,559	1,194,031	360,000	(547,000)	24,877,590	25,729,575
2 Housing & Public Protection	4,749,744	4,338	4,754,082	112,837	500,000	(172,000)	5,194,919	7,060,990
3 Adult Social Services	39,909,472	38,484	39,947,956	877,882	1,500,000	(1,287,000)	41,038,838	41,263,643
4 Schools	70,341,914	2,231,786	72,573,700	1,117,499	71,295	0	73,762,494	73,762,494
5 Life Long Learning	7,016,332	(2,036,086)	4,980,246	54,666	0	(224,000)	4,810,912	20,265,861
6 Prevention & Social Care	14,312,685	(177,700)	14,134,985	245,592	0	(30,000)	14,350,577	14,777,537
7 Community Well Being & Development	4,914,982	7,000	4,921,982	42,613	0	(121,000)	4,843,595	7,943,386
8 Assets & Economic Development	4,679,134	7,000	4,686,134	77,005	0	(494,000)	4,269,139	5,319,446
9 Finance	4,182,304	3,000	4,185,304	19,763	0	(45,000)	4,160,067	0
10 Corporate & Customer Services	6,108,476	6,000	6,114,476	39,759	0	(183,000)	5,971,235	0
11 Repairs & Maintenance	2,063,224	0	2,063,224	61,897	0	0	2,125,121	0
12 Total Net Service Expenditure	182,141,826	90,822	182,232,648	3,843,544	2,431,295	(3,103,000)	185,404,487	196,122,932
13 Corporate and Central Expenditure	26,466,862	(59,000)	26,407,862	73,833	445,000	(441,000)	26,485,695	15,767,250
14 TOTAL NET EXPENDITURE	208,608,688	31,822	208,640,510	3,917,377	2,876,295	(3,544,000)	211,890,182	211,890,182

Funded by:

Revenue Support Grant	129,777,826							126,795,846
Non Domestic Rates	31,360,804							36,279,812
Outcome Agreement Grant	1,291,346							1,298,145
Council Tax Income	46,178,712							47,516,379
TOTAL INCOME	208,608,688							211,890,182

Budget Requirement:

Total Net Expenditure Budget	208,608,688							211,890,182
Less: Outcome Agreement Grant	(1,291,346)							(1,298,145)
Discretionary Rate Relief	(80,000)							(80,000)
	207,237,342							210,512,037

WREXHAM COUNTY BOROUGH COUNCIL**COUNCIL TAX INFORMATION 2012/13**

Tax Base	Community	WCBC General Expenses	WCBC Special Expenses	N Wales Police Precept	Community Precepts	TOTAL
494	Abenbury	912.76		214.56	24.39	1,151.71
5,795	Acton	912.76	4.28	214.56	20.19	1,151.79
591	Bangor Isycoed	912.76		214.56	29.37	1,156.69
637	Bronington	912.76		214.56	18.05	1,145.37
2,624	Broughton	912.76		214.56	24.01	1,151.33
1,841	Brymbo	912.76		214.56	38.02	1,165.34
3,734	Caia Park	912.76	4.28	214.56	56.00	1,187.60
2,214	Cefn	912.76		214.56	47.51	1,174.83
160	Ceiriog Ucha	912.76		214.56	6.25	1,133.57
1,664	Chirk	912.76		214.56	53.98	1,181.30
1,684	Coedpoeth	912.76		214.56	82.80	1,210.12
212	Erbistock	912.76		214.56	5.59	1,132.91
1,396	Esclusham	912.76		214.56	54.00	1,181.32
378	Glyntraian	912.76		214.56	35.00	1,162.32
2,588	Gresford	912.76		214.56	27.77	1,155.09
3,777	Gwersyllt	912.76		214.56	29.12	1,156.44
368	Hanmer	912.76		214.56	8.15	1,135.47
812	Holt	912.76		214.56	28.94	1,156.26
206	Isycoed	912.76		214.56	49.22	1,176.54
850	Llangollen Rural	912.76		214.56	34.12	1,161.44
475	Llansantffraid Glyn Ceiriog	912.76		214.56	46.32	1,173.64
1,747	Llay	912.76		214.56	38.64	1,165.96
633	Maelor South	912.76		214.56	12.85	1,140.17
602	Marchwiel	912.76		214.56	39.90	1,167.22
697	Minera	912.76		214.56	26.05	1,153.37
3,771	Offa	912.76	4.28	214.56	44.02	1,175.62
689	Overton	912.76		214.56	62.82	1,190.14
1,110	Penycae	912.76		214.56	50.29	1,177.61
2,691	Rhosddu	912.76	4.28	214.56	8.18	1,139.78
3,249	Rhosllanerchrugog	912.76		214.56	61.20	1,188.52
1,765	Rossett	912.76		214.56	30.65	1,157.97
1,745	Ruabon	912.76		214.56	45.85	1,173.17
310	Sesswick	912.76		214.56	4.84	1,132.16
474	Willington / Worthenbury	912.76		214.56	14.56	1,141.88
51,983	Total / Average	912.76	1.32	214.56	37.34	1,165.98

NOTE: Tax Base = Band "D" Equivalent for a full Council Taxpayer

Description of Codes and Headings used in the Budget Book

<u>Service</u>	<u>Description</u>	<u>Includes</u>
Employee Costs	Total Pay	Management & Administration, Teachers, Caretakers, Cleaners etc. Gross Pay, Overtime, Employer's Contribution, N.I. & Superannuation
	Other Employee Costs	Training Costs, Expenses, Contributions, Advertising, Detriment etc.
Premises Costs	Repairs & Maintenance	Building Repairs & Maintenance Grounds Maintenance
	Housing Repairs	Painting etc.
	Energy Costs	Electric, Gas, Oil, Fuel etc.
	Rent and Rates	Rent, NNDR & Council Tax
	Water Services	Water Rates, Sewerage etc.
	Fixtures & Fittings	Purchases, Rentals & Leases
	Operational Expenditure	Premises Costs - Security etc.
	Cleaning Expenditure	Building & Window Cleaning Cleaning Contractors, Supplies - Chemicals etc. Waste Removal, Skip Hire, Pest Control
Transport Costs	Direct Vehicle Costs	Vehicle/Plant Purchase or Lease Costs Vehicle/Plant Repairs & Maintenance Contract Hire MOT Tests, Licences, Parts, Running Costs - Petrol, Oil etc.
	Transport Recharges	Vehicle/Plant Recharges
	Hire & Operational Leases	Hire/Leasing Costs Excess Charges
	Car Allowances	Essential/Casual User Costs Lease Contributions
	Transport Insurance	Transport Insurance & Insurance Excess

Description of Codes and Headings used in the Budget Book**Supplies & Services**

Equipment & Materials	Equipment Purchase & Leasing Equipment Repairs & Maintenance General Materials including First Aid supplies, floral decorations and other specialist items depending on the service
Catering Expenditure	Catering Supplies, Services & Groceries Bar Supplies Vending Supplies
Clothing/Laundry Expenses	Protective Clothing & Uniforms Laundry
Office Expenses	Printing Photocopying Stationery - General and Specialist Books, Periodicals, General Publications etc. Microfilm/Microfiche
Professional Fees & Services	Consultancy Fees Legal Fees Licence Fees Other Professional Fees Exam/Course Fees General Hire Fees
Communications & Computing	Postage Costs Phone Costs - Central, Mobile, Pager etc. Computer Purchase/Maintenance/Recharges Software/Hardware Costs Computer Stationery/Consumables CCTV Costs
Expenses & Subsistence	General Subsistence Travelling Expenses Credit Card Recharges Child Minding Fees
Grants & Subscriptions	Grants & Subscriptions
Financial Provisions	Provisions - Bad Debts, Losses etc.
Miscellaneous	Insurance Costs Advertising/Marketing Costs Hospitality Costs Bank Charges, Audit Fees & Cash Collection

(x)

Description of Codes and Headings used in the Budget Book

3rd Party Payments

Other Authority Charges	Other Authorities, Community Councils, Joint Agreements
Health Charges	Betsi Cadwaladr University Health Board
Voluntary Organisations	Payments under Service Level Agreements
Private Contractors	Payments under Contracts
Other Agencies	Staff Agencies Other Agencies Engineers Fees

Transfer Payments

Rent Allowances	Benefit Payments & Scholarships
Council Tax Benefit	Housing Benefit Rent Allowances

Support Services

Central Support Services	Finance/ICT Recharges Human Resources Recharges Legal Recharges Property Design Recharges Public Offices' Recharges Central Training & Translation Recharges Security Recharges, Insurance Repairs & Maintenance Recharges
Departmental Support Services	Departmental Administration Recharges
Outside General Fund Recharge	Recharges from Outside General Fund

Capital Financing

Capital Finance Charge	Depreciation, Impairment
Debt Charges	Interest Payments Minimum Revenue Provision
Premiums	Premiums on Debt Restructuring

Description of Codes and Headings used in the Budget Book**Income**

Government Grants	Central Government Grants Welsh Government Grants European Grants Housing Subsidy
Other Grants & Contributions	Other Grants Other Contributions Recharges - Outside Bodies, Other Services, Public, Departmental etc.
Customer Receipts	General Sales Catering/Bar Sales Commission Miscellaneous Income
Fees & Charges	General Fees Fines & Court Costs Admissions etc. Car Park Income Membership Fees Home/Day Care Charges Cremation Fees
Rent & Lettings	Rent Sporting Rights Facility Hire Storage Hire
Interest Received	Interest Received
Recharges	Central Support Recovery Departmental Support Recovery School Support Recovery
Corporate & Central Expenditure	Recharges to Corporate and Democratic Core Non Distributed Costs Central Services to the Public Advice to Members

Corporate & Central

BUDGET SUMMARY

CASH LIMITED BUDGET

RECAST

SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	CORPORATE & DEMOCRATIC CORE	4,630,876	4,656,133	3,808,770
	NON DISTRIBUTED COSTS	2,619,160	2,597,200	2,516,426
	CENTRAL SERVICES TO THE PUBLIC	245,154	249,179	1,230,907
	OTHER OPERATING INCOME & EXPENDITURE	18,971,672	18,983,183	281,525
	MOVEMENT IN PENSION RESERVE	0	0	7,929,622
	TOTAL BUDGET	26,466,862	26,485,695	15,767,250

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	1,305,484	1,305,990	1,194,489
PREMISES COSTS	102	102	102
TRANSPORT COSTS	22,028	24,122	24,122
SUPPLIES & SERVICES	5,666,985	5,507,843	13,325,444
3RD PARTY PAYMENTS	8,385,577	8,801,415	8,801,415
TRANSFER PAYMENTS	80,000	80,000	80,000
SUPPORT SERVICES	17,875	17,875	3,804,210
CAPITAL FINANCING	12,113,208	11,676,771	11,705,689
TOTAL EXPENDITURE	27,591,259	27,414,118	38,935,471
INCOME			
FEES, CHARGES & OTHER INCOME	-779,246	-583,272	-583,272
RECHARGES	-345,151	-345,151	-22,584,949
TOTAL INCOME	-1,124,397	-928,423	-23,168,221
TOTAL BUDGET	26,466,862	26,485,695	15,767,250

Corporate & Customer Services

BUDGET SUMMARY

CASH LIMITED BUDGET

RECAST

SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
ICT		1,896,360	1,882,263	0
CUSTOMER SERVICES		727,925	723,804	0
LEGAL SERVICES		778,083	728,282	0
DEMOCRATIC & REGISTRATION SERVICE		883,428	868,151	0
COMMUNICATIONS & SOCIAL MEDIA		428,517	454,231	0
HUMAN RESOURCES		1,394,163	1,314,504	0
TOTAL BUDGET		6,108,476	5,971,235	0

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	6,403,090	6,279,477	5,671,442
PREMISES COSTS	89,112	89,112	89,112
TRANSPORT COSTS	52,206	52,206	52,206
SUPPLIES & SERVICES	1,167,633	1,170,110	1,170,110
3RD PARTY PAYMENTS	28,897	28,897	28,897
SUPPORT SERVICES	6,072	6,072	2,411,907
CAPITAL FINANCING	0	0	35,982
TOTAL EXPENDITURE	7,747,010	7,625,874	9,459,656
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-737,549	-733,654	-733,654
FEES, CHARGES & OTHER INCOME	-508,514	-528,514	-528,514
RECHARGES	-392,471	-392,471	-8,197,488
TOTAL INCOME	-1,638,534	-1,654,639	-9,459,656
TOTAL BUDGET	6,108,476	5,971,235	0

Finance

BUDGET SUMMARY		CASH LIMITED BUDGET		RECAST
SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
FINANCE		4,182,304	4,160,067	0
TOTAL BUDGET		4,182,304	4,160,067	0

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	4,423,075	4,333,521	3,918,161
PREMISES COSTS	589,138	794,791	794,791
TRANSPORT COSTS	165,022	169,839	169,839
SUPPLIES & SERVICES	1,380,147	1,477,373	1,477,373
3RD PARTY PAYMENTS	1,651,377	1,687,458	1,687,458
TRANSFER PAYMENTS	46,521,720	49,607,971	49,607,971
SUPPORT SERVICES	126,791	129,395	3,260,085
CAPITAL FINANCING	0	0	152,163
TOTAL EXPENDITURE	54,857,270	58,200,348	61,067,841
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-48,566,424	-51,322,109	-51,322,109
FEES, CHARGES & OTHER INCOME	-1,315,102	-1,462,320	-1,462,320
RECHARGES	-226,000	-221,000	-1,222,422
TOTAL INCOME	-50,107,526	-53,005,429	-54,006,851
TOTAL BUDGET	4,749,744	5,194,919	7,060,990

Repairs & Maintenance

BUDGET SUMMARY		CASH LIMITED BUDGET		RECAST
SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	REPAIRS & MAINTENANCE	2,063,224	2,125,121	0
	TOTAL BUDGET	2,063,224	2,125,121	0

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
PREMISES COSTS	2,063,224	2,125,121	2,125,121
SUPPORT SERVICES	0	0	26,662
TOTAL EXPENDITURE	2,063,224	2,125,121	2,151,783
INCOME			
RECHARGES	0	0	-2,151,783
TOTAL INCOME	0	0	-2,151,783
TOTAL BUDGET	2,063,224	2,125,121	0

Housing & Public Protection

BUDGET SUMMARY

CASH LIMITED BUDGET

RECAST

SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	HOUSING STRATEGY INCL AFFORDABLE HOUSING	865,311	811,468	791,341
	HOUSING BENEFIT	-1,126,377	-931,582	591,385
	ENERGY EFFICIENCY	108,135	108,205	0
	PRIVATE SECTOR HOUSING	-142,279	-111,904	53,681
	HOMELESSNESS	587,334	896,132	956,433
	TRAVELLERS SITES	83,383	78,154	109,068
	FOOD / HEALTH & PUBLIC HEALTH	1,017,831	940,812	1,176,829
	COMMUNITY SAFETY	527,645	573,480	611,772
	ENVIRONMENTAL PROTECTION	624,420	630,141	772,955
	LICENSING / TRADING STANDARDS	560,967	546,012	755,740
	DEPARTMENTAL SUPPORT	396,991	407,000	0
	SUPPORTING PEOPLE	1,246,383	1,247,001	1,241,786
	TOTAL BUDGET	4,749,744	5,194,919	7,060,990

Analysis by Expenditure and Inco

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	4,423,075	4,333,521	3,918,161
PREMISES COSTS	589,138	794,791	794,791
TRANSPORT COSTS	165,022	169,839	169,839
SUPPLIES & SERVICES	1,380,147	1,477,373	1,477,373
3RD PARTY PAYMENTS	1,651,377	1,687,458	1,687,458
TRANSFER PAYMENTS	46,521,720	49,607,971	49,607,971
SUPPORT SERVICES	126,791	129,395	3,260,085
CAPITAL FINANCING	0	0	152,163
TOTAL EXPENDITURE	54,857,270	58,200,348	61,067,841
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-48,566,424	-51,322,109	-51,322,109
FEES, CHARGES & OTHER INCOME	-1,315,102	-1,462,320	-1,462,320
RECHARGES	-226,000	-221,000	-1,222,422
TOTAL INCOME	-50,107,526	-53,005,429	-54,006,851
TOTAL BUDGET	4,749,744	5,194,919	7,060,990

Housing Services

BUDGET SUMMARY	REVISED	BUDGET
DESCRIPTION	2011/2012	2012/2013
SUMMARY HOUSING REVENUE ACCOUNT		
	£	£
INCOME		
DWELLING RENTS	37,378,000	39,184,000
NON-DWELLING RENTS	903,000	952,000
CHARGES FOR SERVICES AND FACILITIES	183,000	183,000
INCOME FROM SOLAR PV FEED IN TARIFF	100,000	1,368,000
INTEREST	20,000	17,000
TOTAL INCOME	38,584,000	41,704,000
EXPENDITURE		
SUPERVISION AND MANAGEMENT COSTS	4,912,000	5,245,000
SPECIAL EXPENSES (GROUND MAINTENANCE ETC)	310,000	326,000
SHELTERED HOUSING - LANDLORD COSTS	486,000	545,000
CONTRIBUTION TO HOUSING REPAIRS ACCOUNT	13,900,000	14,400,000
MAINTENANCE COSTS SOLAR PV	0	300,000
HRA SUBSIDY PAYABLE	11,450,000	11,533,000
CAPITAL CHARGES INCLUDING SOLAR PV	1,092,000	1,758,000
PROVISION FOR BAD & DOUBTFUL DEBTS	150,000	250,000
CONTRIBUTION TO CAPITAL PROGRAMME (CERA)	8,150,000	5,500,000
TOTAL EXPENDITURE	40,450,000	39,857,000
NET SURPLUS/-DEFICIT FOR THE YEAR	-1,866,000	1,847,000
BALANCE BROUGHT FORWARD	5,004,150	3,138,150
BALANCE CARRIED FORWARD	3,138,150	4,985,150

Housing Services

BUDGET SUMMARY	REVISED	BUDGET
DESCRIPTION	2011/2012	2012/2013
SUMMARY HOUSING REPAIRS ACCOUNT		
	£	£
INCOME		
CONTRIBUTION FROM HOUSING REVENUE ACCOUNT	13,900,000	14,400,000
EXTERNAL RECHARGES	50,000	50,000
DEPARTMENTAL RECHARGES	60,000	60,000
COSTS CHARGED TO CAPITAL PROGRAMME	720,000	730,000
TOTAL INCOME	14,730,000	15,240,000
EXPENDITURE		
REPAIRS		
BUILDING MAINTENANCE	5,380,000	5,426,200
STORES	1,351,000	1,391,000
EXTERNAL CONTRACTORS	4,250,000	4,400,000
SUPPORT SERVICES		
PROPERTY & OTHER CENTRAL RECHARGES	260,000	230,000
REPAIRS	1,279,900	1,370,000
ASSET MANAGEMENT	398,900	410,000
PROPERTY & REPAIRS MANAGEMENT	160,000	134,000
REPAIRS SERVICE CENTRE	237,500	233,500
PAYMENTS ADMINISTRATION	120,000	123,000
HEATING & ELECTRICAL SERVICES	596,500	597,000
SURVEYORS	537,500	540,000
TOTAL EXPENDITURE	14,571,300	14,854,700
NET SURPLUS/-DEFICIT FOR THE YEAR	158,700	385,300
BALANCE BROUGHT FORWARD	340,101	498,801
BALANCE CARRIED FORWARD	498,801	884,101

Adult Social Services

BUDGET SUMMARY		CASH LIMITED BUDGET		RECAST
SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	OLDER PEOPLE	17,902,509	19,062,216	20,824,469
	PHYSICAL DISABILITY & SENSORY IMPAIRMENT	4,205,642	4,332,026	5,055,938
	ADULT SERVICE MANAGERS / GENERIC SERVICES	-100,198	-413,085	-620,064
	MENTAL ILLNESS	2,682,997	2,726,655	2,988,064
	LEARNING DISABILITIES	11,363,887	11,484,632	12,453,485
	SENIOR MANAGEMENT / SUPPORT SERVICES	3,854,635	3,846,394	561,751
	TOTAL BUDGET	39,909,472	41,038,838	41,263,643

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	21,478,678	20,611,070	18,545,527
PREMISES COSTS	400,957	395,167	395,167
TRANSPORT COSTS	812,304	685,737	685,737
SUPPLIES & SERVICES	1,087,912	1,076,701	1,076,701
3RD PARTY PAYMENTS	25,239,564	27,237,407	27,237,407
TRANSFER PAYMENTS	2,549,845	2,676,211	2,676,211
SUPPORT SERVICES	0	0	9,565,770
CAPITAL FINANCING	0	0	263,076
TOTAL EXPENDITURE	51,569,260	52,682,293	60,445,596
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-6,188,221	-6,161,888	-6,161,888
FEES, CHARGES & OTHER INCOME	-5,471,567	-5,481,567	-5,481,567
RECHARGES	0	0	-7,538,498
TOTAL INCOME	-11,659,788	-11,643,455	-19,181,953
TOTAL BUDGET	39,909,472	41,038,838	41,263,643

Lifelong Learning

BUDGET SUMMARY

CASH LIMITED BUDGET

RECAST

SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	DELEGATED SCHOOL BUDGETS	70,341,914	73,762,494	73,762,494
	TOTAL FOR SCHOOLS	70,341,914	73,762,494	73,762,494
	NON DELEGATED SCHOOL BUDGETS	2,044,157	618,756	11,593,432
	YOUTH SERVICE	1,315,254	1,321,796	1,628,378
	LEARNING & ACHIEVEMENT (0 - 11)	1,761,862	1,334,421	2,481,438
	LEARNING & ACHIEVEMENT (12 - 19)	1,245,738	951,172	4,173,973
	SUPPORTING ACHIEVEMENT	296,881	232,327	0
	SCHOOL EFFECTIVENESS GRANT	352,440	352,440	388,640
	TOTAL FOR NON SCHOOLS	7,016,332	4,810,912	20,265,861
	TOTAL BUDGET	77,358,246	78,573,406	94,028,355

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	74,981,014	75,766,090	74,525,932
PREMISES COSTS	4,434,333	4,728,571	4,728,571
TRANSPORT COSTS	338,126	341,049	341,049
SUPPLIES & SERVICES	8,190,123	8,256,308	8,256,308
3RD PARTY PAYMENTS	1,877,640	1,797,076	1,797,076
TRANSFER PAYMENTS	106,530	106,530	106,530
SUPPORT SERVICES	4,319,906	6,476,074	16,146,130
CAPITAL FINANCING	0	0	8,100,471
TOTAL EXPENDITURE	94,247,672	97,471,698	114,002,067
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-12,389,071	-12,405,657	-12,405,657
FEES, CHARGES & OTHER INCOME	-1,289,726	-1,289,726	-1,289,726
RECHARGES	-3,210,629	-5,202,909	-6,278,329
TOTAL INCOME	-16,889,426	-18,898,292	-19,973,712
TOTAL BUDGET	77,358,246	78,573,406	94,028,355

Prevention & Social Care

BUDGET SUMMARY

CASH LIMITED BUDGET

RECAST

SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	BUSINESS SUPPORT TEAM	203,424	138,424	0
	CYMORTH	222,590	222,590	249,455
	PERFORMANCE SUPPORT & DEVELOPMENT	990,439	959,802	1,010,610
	CHILD & FAMILY INCLUSION	678,850	679,999	679,476
	YOUTH JUSTICE SERVICE	582,850	582,850	574,956
	CHILDREN'S SOCIAL CARE	11,634,532	11,766,912	12,263,040
	TOTAL BUDGET	14,312,685	14,350,577	14,777,537

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	7,959,050	7,982,050	7,364,887
PREMISES COSTS	106,418	108,388	108,388
TRANSPORT COSTS	370,826	374,855	374,855
SUPPLIES & SERVICES	2,028,434	1,964,459	1,964,459
3RD PARTY PAYMENTS	4,218,802	4,229,322	4,229,322
TRANSFER PAYMENTS	1,931,015	1,982,063	1,982,063
SUPPORT SERVICES	0	0	2,355,296
CAPITAL FINANCING	0	0	44,384
TOTAL EXPENDITURE	16,614,545	16,641,137	18,423,654
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-1,958,108	-1,881,108	-1,881,108
RECHARGES	-343,752	-409,452	-1,765,009
TOTAL INCOME	-2,301,860	-2,290,560	-3,646,117
TOTAL BUDGET	14,312,685	14,350,577	14,777,537

Asset & Economic Development

BUDGET SUMMARY		CASH LIMITED BUDGET		RECAST
SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	COMMERCIAL ESTATES	-880,359	-893,717	499,251
	MARKETS	-219,203	-109,951	117,471
	BUSINESS & MARKETING	893,930	869,412	1,303,866
	REGENERATION	1,161,151	1,064,151	1,396,253
	CULTURE & HERITAGE	864,565	864,565	1,340,387
	ASSET MANAGEMENT	1,182,857	1,117,857	95,283
	DESIGN SERVICES	337,443	333,400	0
	FACILITIES MANAGEMENT	1,325,632	1,102,058	550,887
	BUILDING CLEANING & CATERING	-227,192	-318,946	16,048
	DEPARTMENTAL SUPPORT	240,310	240,310	0
	TOTAL BUDGET	4,679,134	4,269,139	5,319,446

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	9,380,095	9,157,941	8,394,865
PREMISES COSTS	2,857,424	2,825,847	2,825,847
TRANSPORT COSTS	140,889	127,736	127,736
SUPPLIES & SERVICES	2,720,059	2,711,245	2,711,245
3RD PARTY PAYMENTS	562,308	465,308	465,308
SUPPORT SERVICES	0	0	4,433,622
CAPITAL FINANCING	0	0	2,598,434
TOTAL EXPENDITURE	15,660,775	15,288,077	21,557,057
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-4,265,875	-4,398,389	-4,398,389
FEES, CHARGES & OTHER INCOME	-4,931,969	-4,822,345	-4,822,345
RECHARGES	-1,783,797	-1,798,204	-7,016,877
TOTAL INCOME	-10,981,641	-11,018,938	-16,237,611
TOTAL BUDGET	4,679,134	4,269,139	5,319,446

Community Well-Being & Development

BUDGET SUMMARY

CASH LIMITED BUDGET

RECAST

SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	LIBRARIES & COMMUNITY CENTRES	2,095,637	2,095,637	2,873,189
	TWINNING / MEMORIAL HALL	35,157	35,157	66,581
	LEISURE DEVELOPMENT	245,197	245,197	558,285
	SPORTS FACILITIES	1,180,957	1,190,740	3,256,562
	LEISURE MANAGEMENT / SUPPORT	159,207	152,037	0
	COMMUNITY COHESION & EQUALITIES	178,063	142,063	241,839
	BUILDING CONTROL	0	0	133,703
	PLANNING CONTROL	-128,196	-138,666	129,435
	PLANNING POLICY	594,528	592,923	683,792
	EMERGENCY PLANNING	144,813	144,460	0
	DEPARTMENTAL SUPPORT	409,619	384,047	0
	TOTAL BUDGET	4,914,982	4,843,595	7,943,386

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	6,921,910	6,838,587	6,281,135
PREMISES COSTS	1,293,023	1,293,023	1,293,023
TRANSPORT COSTS	110,732	105,344	105,344
SUPPLIES & SERVICES	1,464,147	1,459,752	1,459,752
3RD PARTY PAYMENTS	126,111	82,941	82,941
SUPPORT SERVICES	0	0	2,514,353
CAPITAL FINANCING	0	0	2,334,220
TOTAL EXPENDITURE	9,915,923	9,779,647	14,070,768
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-1,289,163	-1,289,163	-1,289,163
FEES, CHARGES & OTHER INCOME	-3,711,778	-3,646,889	-3,646,889
RECHARGES	0	0	-1,191,330
TOTAL INCOME	-5,000,941	-4,936,052	-6,127,382
TOTAL BUDGET	4,914,982	4,843,595	7,943,386

Environment

BUDGET SUMMARY		CASH LIMITED BUDGET		RECAST
SERVICE	DESCRIPTION	2011/2012	2012/2013	2012/2013
Net Cost by Service				
		£	£	£
	CEMETERIES & CREMATORIA	-329,080	-331,499	-182,081
	REFUSE COLLECTION	988,051	911,109	1,296,528
	OTHER CLEANSING	1,595,084	1,608,072	2,011,084
	WASTE DISPOSAL / RECYCLING	8,986,649	9,895,249	11,215,900
	COUNTRYSIDE & P.R.O.W.	631,925	657,908	719,592
	PARKS & OPEN SPACES	2,255,920	2,304,547	2,155,450
	TRANSPORT DIVISION & DEPOT SERVICES	-611,216	-521,161	130,673
	DEPARTMENTAL SUPPORT	625,927	634,223	0
	TRANSPORT CO-ORDINATION & SCHOOL TRANSPORT	4,850,180	4,676,553	1,235,710
	ENGINEERING CONSULTANCY	237,421	242,218	907,983
	CAR PARKS & DECRIMINALISED PARKING	-539,987	-524,173	-495,100
	ROAD SAFETY & SCHOOL CROSSING PATROLS	145,929	148,464	149,840
	TRAFFIC & TRANSPORTATION PLANNING	495,198	502,202	878,414
	HIGHWAYS MAINTENANCE	4,531,558	4,673,878	5,705,582
	TOTAL BUDGET	23,863,559	24,877,590	25,729,575

Analysis by Expenditure and Income

	£	£	£
EXPENDITURE			
EMPLOYEE COSTS	11,062,785	10,753,028	9,681,361
PREMISES COSTS	1,447,498	1,536,384	1,536,384
TRANSPORT COSTS	9,239,052	9,301,878	9,301,878
SUPPLIES & SERVICES	1,880,173	1,909,654	1,909,654
3RD PARTY PAYMENTS	17,761,064	18,941,132	18,941,132
SUPPORT SERVICES	0	0	4,598,203
CAPITAL FINANCING	0	0	3,476,876
TOTAL EXPENDITURE	41,390,572	42,442,076	49,445,488
INCOME			
GRANTS & OTHER CONTRIBUTIONS	-14,244,335	-14,279,217	-14,279,217
FEES, CHARGES & OTHER INCOME	-3,282,678	-3,285,269	-3,285,269
RECHARGES	0	0	-6,151,427
TOTAL INCOME	-17,527,013	-17,564,486	-23,715,913
TOTAL BUDGET	23,863,559	24,877,590	25,729,575

Management of Key Risks

Budget Assumption	Risk	Management
Inflation and interest rates	<p>a) General inflation provision of 3% as been included in the budget. CPI is currently 3.6% and in particular energy/fuel costs could be higher than what has been budgeted for.</p> <p>b) Future interest rate movements will impact on the level of investment income.</p>	Through the Council's budget monitoring and control arrangements.
Pay Review	The value of claims as from 1 April 2007 is not finalised.	
<p>Service Savings:</p> <p>a) Savings identified as a result of North Wales Collaboration i.e. School Improvement service.</p> <p>b) Cross departmental service changes i.e. Transport efficiencies</p>	<p>Model not appropriate for Wrexham's needs.</p> <p>Business cases may not be completed within timescale</p>	<p>Through the Regional Programme Board</p> <p>Through the Project Management arrangements</p>
<p>Service Pressures:</p> <p>a) Provision has been made in the budget to cover some services that are overspending (housing benefits and homelessness) in the current year but not all services (i.e decrease in income).</p> <p>b) Provision has been made to cover the changes in demand for Adult Social Care and increase in fee levels.</p>	<p>Demand for these services may continue to exceed level of funding available.</p> <p>A continuing downturn in the UK economy could result in a further loss of income (i.e. planning fees).</p> <p>Demand for these services may continue to exceed the level of funding available.</p> <p>Fee levels exceed the budget available</p>	<p>Through the Council's budget monitoring and control arrangements</p> <p>Re-prioritise accordingly to users of most critical need</p> <p>Regular liaison with external providers of care</p>
Capital Financing costs	The level of borrowing is based on level and timing of other sources of funding e.g. capital receipts and grants. These may be subject to change.	Through the member/officer working group consideration and recommendation to the Board.

Treasury Management Strategy Statement and Investment Strategy

2012/13 to 2014/15

1. Background

- 1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Welsh Government's (WG's) Investment Guidance.
- 1.2 The purpose of this TMSS is, therefore, to approve:
 - Treasury Management Strategy for 2012/13
 - Annual Investment Strategy for 2012/13 (*Paragraphs 7 & 8*)
 - Prudential Indicators for 2012/13, 2013/14 and 2014/15 (*page 24*)
 - MRP Statement. (*Paragraph 11*)
- 1.3 Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.4 As required by the CIPFA Prudential Code, the Executive Board has adopted the CIPFA Treasury Management Code at its meeting on 19 March 2002 (DFIS/20/02). The Council has incorporated the changes from the revised code into its treasury policy procedures and practices.
- 1.5 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Background

- 2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.
- 2.2 The Authority's current level of debt and investments is set out on page 23.
- 2.3 The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The Authority is likely to borrow in advance of need only if the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweigh the current cost and risks associated with investing the proceeds until the borrowing was actually required.
- 2.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2104/15 Estimate £m
General Fund CFR	141.2	139.5	137.0	134.9
HRA CFR	21.5	20.1	18.8	17.5
Total CFR	162.7	159.6	155.8	152.4
Less:				
Existing Profile of Borrowing and Other Long Term Liabilities	144.2	142.9	141.9	141.0
Cumulative Maximum External Borrowing Requirement	18.5	16.7	13.9	11.4
Usable Reserves	47.6	42.4	38.0	37.4
Cumulative Net Borrowing Requirement/(Investments)	-(29.1)	-(25.7)	-(24.1)	-(26.0)

2.5 Table 1 shows that the capital expenditure plans of the Authority can be funded entirely from sources other than external borrowing.

3. Interest Rate Forecast

3.1 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached on page 33. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

4. Borrowing Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided on page 33 indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

4.2 As indicated in Table 1, the Authority has a gross borrowing requirement of £16.7m in 2012/13 but has sufficient balances and reserves to avoid the need for external borrowing. By essentially lending its own surplus funds to itself the Authority is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances.

4.3 It is likely the housing subsidy system which will be abolished in England from 1 April 2012 will also be abolished in Wales, though no timetable for this has been given. The abolition of the subsidy system will require the Housing Revenue Account (HRA) to take on additional borrowing and the current statutory method of allocating borrowing costs between the HRA and General Fund will be replaced. Further reports will be presented when the timetable for and implications of any changes proposed are clarified.

5. Sources of Borrowing and Portfolio implications

5.1 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Authority will keep under review the following borrowing sources:

- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

5.2 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

5.3 The Authority has £23.8m exposure to LOBO loans (Lender's Option Borrower's Option) of which £14.3m of this can be "called" within 2012/13. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion.

Any LOBOs called will be discussed with the treasury advisors prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

6. Debt Rescheduling

- 6.1 The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.
- 6.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:
- Savings in risk adjusted interest costs
 - Rebalancing the interest rate structure of the debt portfolio
 - Changing the maturity profile of the debt portfolio
- 6.3 Borrowing and rescheduling activity will be reported in the Annual Treasury Management Report and the regular treasury management reports presented to the Executive Board.

7. Annual Investment Strategy

- 7.1 In accordance with Investment Guidance issued by the WG and best practice, this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments are important but secondary considerations.
- 7.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.
- 7.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the WG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non-specified investments are, effectively, everything else.

- 7.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	✗
Commercial Paper	✓	✗
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗

7.5 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included on page 35.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

- 7.6 The main change recommended to investment strategy for 2012/13 is that the minimum long term counterparty credit rating will be reduced from A+ to A- or equivalent for UK counterparties. (This represents a two degree change within the same grading subdivision, upper medium grade which indicates a strong capacity to meet financial commitments).

The change is made in response to evolving conditions in financial markets and follows the Autumn 2011 downgrades in credit ratings to below A+ of UK institutions (Nationwide BS, Lloyds TSB Bank, Bank of Scotland, Royal Bank of Scotland, Natwest Bank plc and Barclays) and the November classification of HSBC, Barclays, Lloyds Banking Group and Royal Bank of Scotland as "Globally Systemically Important Financial Institutions" (G-SIFI) by the Financial Stability Board. While this classification does not guarantee that these institutions will not be allowed to fail, G-SIFI institutions are required to take additional measures to reduce the risk of failure.

A minimum rating of A- or equivalent, systemic importance to the UK Banking System and the other factors listed in paragraph 7.5 above together with maturity duration limits linked to credit ratings, where considered appropriate, is considered to be a pragmatic approach to counterparty risk.

- 7.7 **Authority's Banker** – The Authority banks with National Westminster Bank plc. At the current time, it meets the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Authority's minimum criteria of A-, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

A European Union directive requires the transfer of business from National Westminster Bank plc to Santander UK plc by 31 December 2013 but it is expected that legal transfer will be completed by January 2013. From the date of transfer the Council's bankers will be Santander UK plc which also meets the Council's minimum credit criteria.

The Council's current banking facilities contract expires on 31 March 2013 and the EU directive prevents National Westminster plc from tendering for the new contract which will be awarded from 1 April 2013.

8. Investment Strategy

- 8.1 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.
- 8.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

8.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

9. The Use of Financial Instruments for the Management of Risks

9.1 Currently, Local Authorities' legal power to use derivative instruments remains unclear. Consequently, the Authority does not intend to use derivatives.

9.2 Should this position change, the Authority may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

10. Balanced Budget Requirement

10.1 The Authority complies with the provisions of S93 of the Local Government Finance Act 1992 to set a balanced budget.

11. 2012/13 MRP Statement

11.1 The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 (SI 2008/588 (W.59)) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Government and local authorities are required to "have regard" to such Guidance under section 21(1B) of the Local Government Act 2003.

11.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

11.3 MRP in 2012/13: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses).

11.4 The MRP Statement is required to be submitted to Authority before the start of the 2012/13 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to the Council at that time.

The Authority will apply Option 2 in respect of supported Non-HRA capital expenditure funded from borrowing and Option 3 in respect of unsupported Non-HRA capital expenditure funded from borrowing.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

MRP on Housing assets is made in accordance with the General Determination of the Item 8 Credit and Item 8 Debit.

12. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

12.1 The Head of Finance will report to the Executive Board on treasury management activity / performance and Performance Indicators as follows:

- Twice, in October and January, against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- The Finance and Performance Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

13. Other Items

13.1 Training

CIPFA's Code of Practice requires the Head of Finance 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.

Reviewing and addressing training needs: Workshops on Treasury Management will be arranged for members in conjunction with the Council's treasury management advisors, Arlingclose.

13.2 Investment Consultants/Treasury Advisors

The WG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether, and if so, how the authority uses external contractors offering information, advice or assistance relating to investment – the Council has engaged Arlingclose Ltd to provide these services.
- How the quality of any such service is controlled - the quality of service provided by the Council's Treasury consultants is controlled by competitive tendering every 3 years. The current contract terminates in March 2013 and the procurement of Treasury Management advisors from April 2013 will be undertaken during 2012/13.

Existing Investment & Debt Portfolio Position (Section 2.2)

	Actual Portfolio
	£m
External Borrowing:	
- Fixed Rate – PWLB	102.6
- Fixed Rate – Market	23.8
- Variable Rate – PWLB	0.0
- Variable Rate – Market	0.0
Interest Free Loans	1.2
Total External Borrowing	127.6
Other Long Term Liabilities:	
- - PFI	15.2
- - Finance Leases	1.5
Total Gross External Debt	144.3
Investments:	
- Managed in-house	0.0
- Short-term monies (Deposits/monies on call/Money Market Funds)	43.3
- Long-term investments	0.0
- Managed externally	0.0
Total Investments	43.3

Prudential Indicators 2012/13 – 2014/15

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Net Borrowing and the Capital Financing Requirement:

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

The Head of Finance reports that the Authority had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
Non-HRA General	32.5	34.4	30.1	19.0	7.8
Non-HRA Solar Panels	2.4	0.0	0.0	0.0	0.0
HRA General	12.5	14.1	13.1	13.1	13.1
HRA Solar Panels	13.5	10.5	0.0	0.0	0.0
Total	60.9	59.0	43.2	32.1	20.9

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
Capital Receipts	7.8	5.1	5.9	4.6	1.2
Government Grants	19.2	22.4	17.6	10.8	3.2
WG Invest to Save Fund Solar Panels	0.1	0.0	0.0	0.0	0.0
Major Repairs Allowance	7.6	7.6	7.6	7.6	7.6
Revenue Contributions & Reserves	5.0	7.4	6.0	5.5	5.5
HRA Revenue Contributions - Solar Panels	1.5	3.0	0.0	0.0	0.0
Capital Reserve	0.0	0.8	1.2	0.2	0.0
Total Financing	41.2	46.3	38.3	28.7	17.5
Supported Borrowing	4.6	4.6	4.1	3.4	3.4
Unsupported Borrowing	0.8	0.4	0.8	0.0	0.0
Unsupported Borrowing Solar Panels	14.3	7.5	0.0	0.0	0.0
WG and Salix Interest Free Loans	0.0	0.2	0.0	0.0	0.0
Total Funding	19.7	12.7	4.9	3.4	3.4
Total Financing and Funding	60.9	59.0	43.2	32.1	20.9

4. Ratio of Financing Costs to Net Revenue Stream:

- 4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Non-HRA	5.18	5.25	5.15	5.09	5.01
HRA	3.68	3.40	3.78	3.37	3.08

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Non-HRA	141.5	141.2	139.5	137.0	134.9
HRA	15.0	21.5	20.1	18.8	17.5
Total CFR	156.5	162.7	159.6	155.8	152.4

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2011	£m
Borrowing	131.6
Other Long-term Liabilities	17.7
Total	149.3

7. Incremental Impact of Capital Investment Decisions:

- 7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2011/12 Approved £	2011/12 Revised £	2012/13 £	2013/14 £	2014/15 £
Increase in Band D Council Tax	59.66	38.86	35.02	31.21	23.06
Increase in Average Weekly Housing Rents	0.00	0.00	0.00	0.00	0.00

- 7.2 The increase in Band D council tax reflects the increases in the provision for Capital Financing Charges relating to borrowing arising from the proposed capital programme.

- 7.3 The Housing Revenue Account capital programme has no impact on Council House rents which are set in accordance with Welsh Government guidance.

8. Authorised Limit and Operational Boundary for External Debt:

- 8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

- 8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

- 8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

- 8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2011/12 Approved £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	199.4	189.4	188.5	187.8
Other Long-term Liabilities	16.2	15.6	15.2	14.9
Total	215.6	205.0	203.7	202.7

- 8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

- 8.6 The Head of Finance has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Executive Board.

Operational Boundary of External Debt	2011/12 Approved £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	189.4	179.4	178.5	177.8
Other long term liabilities	16.2	15.6	15.2	14.9
Total	205.6	195.0	193.7	192.7

9. Adoption of the CIPFA Treasury Management Code:

- 9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Executive Board approved the adoption of the CIPFA Treasury Management Code on 19 March 2002 (DFIS/20/02)

The Council has incorporated the changes from the revised (November 2011) CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Gross and Net Debt:

- 10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

10.2

Upper Limit on Net Debt compared to Gross Debt	2011/12 Estimated £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Outstanding Borrowing (at nominal value)	127.6	127.3	126.7	126.1
Other Long-term Liabilities (at nominal value)	16.6	15.6	15.2	14.9
Gross Debt	144.2	142.9	141.9	141.0
Less: Investments	30.2	26.8	25.3	27.1
Net Debt	114.0	116.1	116.6	113.9

NB: CIPFA is currently consulting on a revised indicator, to compare Gross rather than Net Debt with the Capital Financing Requirement as a clearer indication of borrowing in advance of need. Both Gross and Net Debt positions are shown in the above table.

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

- 11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments).
- 11.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

Interest Rate Exposures	Existing level or Benchmark level at 31/03/11 %	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
<u>Fixed</u>						
Upper Limit for Fixed Interest Rate Exposure on Debt	100	100	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(100)	(100)	(100)	(100)	(100)	(100)
Net Fixed Exposure	0	0	0	0	0	0
<u>Variable</u>						
Upper Limit for Variable Interest Rate Exposure on Debt	30	30	30	30	(30)	30
Upper Limit for Variable Interest Rate Exposure on Investments	(50)	(50)	(50)	(50)	(50)	(50)
Net Variable Exposure	(20)	(20)	(20)	(20)	(20)	(20)

- 11.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the

decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing:

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and 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.

12.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/11 %	Lower Limit for 2012/13 %	Upper Limit for 2012/13 %
under 12 months	11.5	0	20
12 months and within 24 months	4.0	0	20
24 months and within 5 years	5.8	0	20
5 years and within 10 years	5.2	0	80
10 years and within 20 years	12.0	0	80
20 years and within 30 years	6.0	0	80
30 years and within 40 years	12.9	0	80
40 years and within 50 years	42.6	0	80
50 years and above	0.0	0	90
Total	100.0		

13. Credit Risk:

13.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

13.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

13.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

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

14. Upper Limit for total principal sums invested over 364 days:

14.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
	15	15	10	10	10

Economic & Interest Rate Forecast (Sections 3.1 & 4.1)

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Official Bank Rate													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Central case	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.00	2.00	2.00	2.00	2.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.20	1.30	1.40	1.50	1.60	1.70	1.80	2.00	2.00	2.00	2.10	2.15	2.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.10	2.15	2.30	2.40	2.50	2.60	2.70	2.75	2.80	2.85	2.90	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.00	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.20	3.40	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- The US Federal Reserve has signalled it will keep interest rates "at exceptionally low levels" until 2014. We believe that it could be 2016 before official UK interest rates rise.
- The UK's safe haven status, the direct effect of QE and minimal prospect of an increase in policy rates are expected to keep gilt yields at their lows in the near term.
- A disorderly outcome to the Eurozone sovereign crisis remains a key economic, credit and political risk.

Underlying Assumptions:

- Financial market stress is expected to remain a feature of 2012. Rates within Interbank markets (where banks fund the majority of their day to day operations) have continued to climb. This dynamic was a characteristic of the 2008 banking crisis and whilst the authorities have flooded the markets with liquidity, it is still a strong indicator of market risk.

- Inflation has moderated back to 4.8% in November. CPI is expected to drop gradually back towards the 2% target as the January 2011 VAT increase, the surge in oil prices and the large energy price hikes fall out of the twelve month comparison.
- Recent data and surveys suggest that since the summer the UK economy has lost the admittedly fragile momentum. Business and consumer surveys point to continued weakness in coming months. Public spending cuts, austerity measures, credit constraints, low business and consumer confidence could result in the economy stalling (Q3 excepted, when the 2012 Olympics will provide a temporary boost) and most likely pressure the Bank of England to provide further QE.
- Faltering global growth will not be helped by the considerable uncertainty and expansion of risks presented by the crisis in the Eurozone and gridlock in the US going into an election year. The knock-on effects could in turn weigh on growth in China and emerging market countries.
- Gilt supply is expected to be higher in 2012-13 than earlier forecast by the Treasury. However, over the short-term, gilts will retain their safe-haven status as euro area contagion risks grow.
- Sizeable European bond redemptions and refinancing (Italy in particular) in the first half of 2012 remain significant challenges. Headwinds to fiscal convergence and treaty changes could intensify downgrade pressures on the AAA core nations as well as peripheral countries. The effectiveness of the European Financial Stability Fund (EFSF) may prove limited, increasing the possibility of a sovereign failure or the break-up of the euro area.

Recommended Sovereign and Counterparty List (Section 7)

- **Group Limits** - For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/ £m	Maximum Group Limit (if applicable) %/ £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£10m	n/a
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£10m	£15m
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£10m	£15m
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	£10m	n/a
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	£10m	£15m
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	£10m	£15m
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	£10m	£15m
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	£10m	n/a
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£10m	£15m
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	£10m	n/a
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	£10m	n/a

Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	£10m	n/a
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£10m	£15m
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	£10m	n/a
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	£10m	n/a
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	£10m	n/a
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	£10m	n/a
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	£10m	n/a
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	£10m	n/a
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	£10m	n/a
Term Deposits / CDs / Call Accounts	France	BNP Paribas	£10m	n/a
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£10m	n/a
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£10m	n/a
Term Deposits / CDs / Call Accounts	France	Société Générale	£10m	n/a

Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	£10m	n/a
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	£10m	n/a
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	£10m	n/a
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	£10m	n/a
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	£10m	n/a
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	£10m	n/a
Term Deposits / CDs / Call Accounts	US	JP Morgan	£10m	n/a

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.*