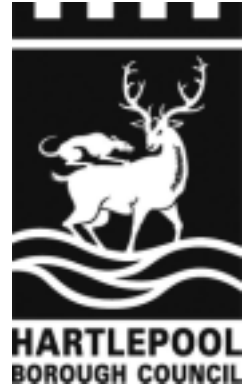


REPLACEMENT AGENDA

CABINET AGENDA



Friday 1st May 2009

at 9.00 am

in Committee Room B, Civic Centre, Hartlepool

MEMBERS: CABINET:

The Mayor, Stuart Drummond
Councillors Hall, Hargreaves, Hill, Jackson, Payne, and Tumilty.

1. **APOLOGIES FOR ABSENCE**
2. **TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**
3. **MINUTES**

To receive the Record of Decision in respect of the meeting held on 20 April 2009
(previously circulated)

4. **BUDGET AND POLICY FRAMEWORK**

No items

5. **KEY DECISIONS**

No items.

6. **OTHER ITEMS REQUIRING DECISION**

- 6.1 Nomination of Site at Hartlepool for a Potential New Nuclear Power Station –
Director of Regeneration and Planning Services
- 6.2 Medium Term Financial Strategy 2009/10 to 2012/13 – *Chief Financial Officer*
- 6.3 Request for Grant Towards the Entertainment at Dockfest Event – *The Mayor*

REPLACEMENT AGENDA

7. ITEMS FOR DISCUSSION

No items.

8. ITEMS FOR INFORMATION

No items

9. REPORTS FROM OVERVIEW OF SCRUTINY FORUMS

No items

CABINET REPORT

1 May 2009



Report of: Director of Regeneration & Planning Services

Subject: NOMINATION OF SITE AT HARTLEPOOL FOR A
POTENTIAL NEW NUCLEAR POWER STATION

SUMMARY

1. PURPOSE OF REPORT

To advise Cabinet that the Government has published for public consultation a list of eleven sites in England & Wales, which have been nominated for potential new nuclear power stations. A site adjacent to Hartlepool Nuclear Power Station has been nominated by EDF.

2. SUMMARY OF CONTENTS

The Department of Energy and Climate Change has published a list of eleven sites which have been nominated by the nuclear energy industry as locations for new potential nuclear power stations.

The site adjacent to the existing Hartlepool Power Station has been nominated by EDF Energy as a site for a potential new nuclear power station. The Hartlepool site is shown on Appendix 1 attached.

Comments are sought on the information provided by the nominators for each of the Government's criteria for site selection.

The period of this consultation stage is **15 April to 14 May 2009**. The relevant documents are available for public inspection and comment at the Civic Centre Bryan Hanson House and libraries in Hartlepool.

This current consultation period is short but later this year the Government will run a full consultation on its draft Nuclear National Policy Statement and the list of potential sites.

3. RELEVANCE TO CABINET

The Executive has responsibility for matters deemed to be sensitive which are non-key decisions.

4. TYPE OF DECISION

Non - Key

5. DECISION MAKING ROUTE

Cabinet 1 May 2009

6. DECISION REQUIRED

That Cabinet notes that the Government is undertaking a consultation process for one month until 14 May 2009 on the Nomination of a site at Hartlepool, together with ten others elsewhere in England and Wales, for potential new Nuclear Power Stations.

Subject to any further comments arising from officers' current assessment of the document, that Cabinet agrees that the Nomination of a site for a new Nuclear Power Station at Hartlepool merits further investigation by the Government in its preparation of a draft Nuclear National Planning Policy.

It is noted that studies are, in the meantime, being undertaken locally to assess the economic and environmental impacts of a new nuclear power station at Hartlepool and the findings of the studies will help inform public debate in the lead-up to, and during, the longer and wider stage of public consultation in Autumn 2009.

Report of: Director of Regeneration & Planning Services

Subject: NOMINATION OF SITE AT HARTLEPOOL FOR A
POTENTIAL NEW NUCLEAR POWER STATION

1. PURPOSE OF REPORT

- 1.1 To advise Cabinet that the Government has published for public consultation a list of eleven sites in England & Wales which have been nominated for potential new nuclear power stations. The list includes a site adjacent to Hartlepool Nuclear Power Station which has been nominated by EDF.
- 1.2 To advise Cabinet that the Government is undertaking public consultation on the nominated sites and the criteria for site selection. The consultation runs for one month from 15 April – to 14 May 2009.

2. BACKGROUND

- 2.1 Since the report to Cabinet on 6 April 2009 on the strategic site assessment for Nuclear Power stations and the impending nomination of Hartlepool as a site for a potential new nuclear power station the Department of Energy and Climate Change (DECC) has instigated a consultation exercise on a list of sites nominated by prospective developers for new nuclear power stations.

3 NOMINATION OF SITES FOR POTENTIAL NEW NUCLEAR POWER STATIONS

- 3.1 On 15 April 2009 the Department of Energy and Climate Change published a list of eleven sites which have been nominated by the nuclear energy industry as locations for new potential nuclear power stations. These are: –
 - Braystones (Cumbria)
 - Bradwell (Essex)
 - Dungeness (Kent)
 - Hartlepool
 - Heysham (Lancashire)
 - Hinkley Point (Somerset)
 - Kirkstanton (Cumbria)
 - Oldbury (Gloucestershire)
 - Sellafield (Cumbria)
 - Sizewell (Suffolk)

- Wylfa (Anglesey, North Wales)

3.2 In line with the company's earlier indications to Council representatives and the public, the site adjacent to the existing Hartlepool Power Station has been nominated by EDF Energy as a site for a potential new nuclear power station. A supporting statement by EDF has been submitted to the DECC. The nomination document includes a location map of the Hartlepool site and this is shown on **Appendix 1** attached. The Council has also been notified that part of the land within the nominated site area falls within the Council's ownership.

4. THE GOVERNMENT'S PUBLIC CONSULTATION ON THE NOMINATIONS OF SITES AND THE CRITERIA FOR SITE SELECTION

- 4.1 The Government (Department of Energy & Climate Change) has requested comments from the public and interested parties on the information provided by the nominators for each of the Government's criteria for site selection.
- 4.2 The period of this consultation stage is **15 April to 14 May 2009**. The DECC has published in the local Press a notice relating to the consultation process (see **Appendix 2**)
- 4.3 Relevant documents are available for public inspection and comment at the following locations until 14 May 2009:
- Civic Centre
 - Bryan Hanson House
 - Hartlepool Central Library
 - All branch libraries in Hartlepool

Copies of the documents have also been made available in the Members' Room.

- 4.4 This current consultation period is quite short but later this year the Government will run a full consultation on its draft Nuclear National Policy Statement and the list of potential sites. The Government (DECC) emphasises that the current consultation procedure is simply an opportunity for initial comments and responses on generalised high level issues are being sought. The submitted nominations documents concentrate, in the main, on strategic issues and do not contain sufficient detail for meaningful detailed comment.
- 4.5 Over the coming months Government will be assessing each of the nominated sites to decide if it meets a number of criteria. Sites assessed as suitable will be listed in the draft Nuclear National Policy Statement. The Government will be consulting the public again on this draft Policy Statement and the draft list of sites in autumn 2009. This will be the main opportunity to comment on these issues.
- 4.6 The documents available for public consultation are:

- Site Nomination for Hartlepool “Strategic Siting Assessment for the development of new nuclear power stations in the UK. This includes various Site Maps
- Towards a National Policy Statement January 2009 Strategic Site Assessment
- Have Your Say Leaflet
- Comment Form (to be returned to DECC)

- 4.7 Information contained in the EDF's Nomination Document is currently being assessed by officers and a fuller update on the submitted report will be made at the meeting.
- 4.8 EDF's Nomination Document outlines generation information relating to the Site Boundary at Hartlepool. The area of the site shown on the public consultation map is quite extensive and maybe larger than ultimately required. This is line with Government advice which encourages Nominators to ensure that the area includes within the site all likely actual site plans and reasonable variations of the proposals. The boundary of the Hartlepool site therefore covers sufficient land to take account of details of siting and design which are, as yet, unknown. Such issues will be subject to detailed investigations at a local level. The defined site does however include land likely to be required for cooling water infrastructure.
- 4.9 EDF's Nomination Document sets out responses to a number of standard questions asked by Government. These relate to:-
- Flood risk
 - Coastal erosion and other landscape changes
 - Proximity to hazardous facilities
 - Proximity to civil aircraft movement
 - Proximity to military activities
 - Existence of Internationally and Nationally Designated sites of Ecological Importance
 - Areas of amenity, cultural heritage and landscape value
 - Access to suitable sources of cooling water.
- 4.10 At the time of writing the Nomination Document is still being assessed by relevant officers. However the initial information supplied by EDF appears accurate although it might be useful to clarify a small number of specific points of detail.

5. OTHER RELEVANT INFORMATION

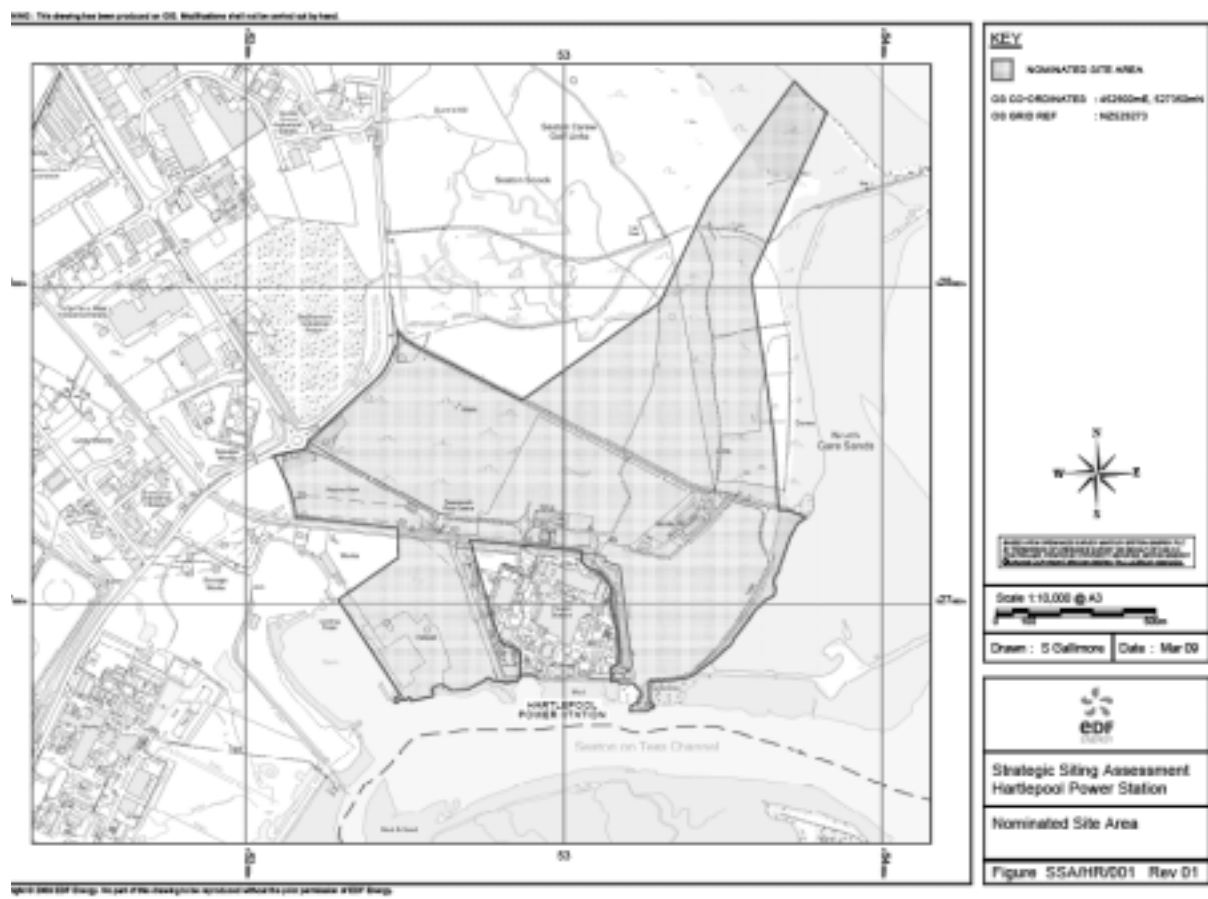
- 5.1 To help inform public debate in the lead-up to, and during, that consultation period, the Council has liaised with partners within the Economic Forum and the Environment Partnership to produce an economic impact study and a high-level assessment of the environmental implications of a new nuclear power station.

Both pieces of work are nearing completion and will be made available to assist public consultation, so that when the Government seeks views later in 2009 clear and considered responses can be given.

6. DECISION REQUIRED:-

- 6.1 That Cabinet notes that the Government is undertaking a consultation process for one month until 14 May 2009 on the Nomination of a site at Hartlepool, together with ten others elsewhere in England and Wales, for potential new Nuclear Power Stations
- 6.2 Subject to any further comments arising from officers' current assessment of the document, that Cabinet agrees that the Nomination of a site for a new Nuclear Power Station at Hartlepool merits further investigation by the Government in its preparation of a draft Nuclear National Planning Policy.
- 6.3 It is noted that studies are, in the meantime, being undertaken locally to assess the economic and environmental impacts of a new nuclear power station at Hartlepool and the findings of the studies will help inform public debate in the lead-up to, and during, the longer and wider stage of public consultation in Autumn 2009.


Appendix 1



Hartlepool has been nominated as a potential site for a new nuclear power station

The Government is undertaking a process to identify sites which are suitable or potentially suitable for new nuclear power stations. This site has been nominated by EDF Energy. You have one month to comment on this nomination, which we expect to run from 15 April to 14 May 2009. You can see the nominations and criteria that will be used by the Government to assess the site's suitability and you can comment on the information supplied against the criteria. The Government will incorporate these comments into its assessment of sites.

This is an additional opportunity to comment, in advance of the public consultation in autumn 2009.



You have the opportunity to view and comment on these nominations

How to comment

The easiest way to make your comments and find out more about the process is to visit www.nuclearpowersiting.decc.gov.uk

If you do not have access to the internet, please visit the Hartlepool Civic Centre, Victoria Road, or Bryan Hanson House, Hanson Square, or visit any library in Hartlepool where the documents will also be available.

For a copy of the response form call 020 7215 3331.

CABINET REPORT

1st May, 2009



Report of: Chief Financial Officer

Subject: MEDIUM TERM FINANCIAL STRATEGY 2009/2010
TO 2012/2013

SUMMARY

1. PURPOSE OF REPORT

- 1.1 To enable Members to approve the Medium Term Financial Strategy (MTFS) document.

2. SUMMARY OF CONTENTS

- 2.1 The MTFS document (**Appendix A**) compliments the budget reports approved by Members in February. The MTFS does not include any new issues for Members consideration. It brings together information previously reported separately into a single document. The MTFS document provides the link between the approved budget for the current year and the development of detailed budget strategy for future years.

3. RELEVANCE TO CABINET

- 3.1 Cabinet is responsible for developing the MTFS.

4. TYPE OF DECISION

- 4.1 Non Key.

5. DECISION MAKING ROUTE

- 5.1 Cabinet, 30th April, 2009.

6. DECISION(S) REQUIRED

- 6.1 It is recommended Cabinet approves the MTFS document.

Report of: Chief Financial Officer

Subject: MEDIUM TERM FINANCIAL STRATEGY
2009/2010 TO 2012/2013

1. PURPOSE OF REPORT

- 1.1 To enable Members to approve the Medium Term Financial Strategy document.

2. MEDIUM TERM FINANCIAL STRATEGY 2009/2010 TO 2012/2013

- 2.1 Detailed proposals for the 2009/2010 budget were approved at your meeting on 9th February, 2009 and then Council on 12th February, 2009. These reports concentrated on the specific issues which Members needed to address in order to set the 2009/2010 budget and Council Tax.
- 2.2 The previous report also provided an overview of the forecast budget positions for 2010/2011 and 2011/2012. These forecasts indicated that the Council faces a structural budget deficit which will only be partly bridged from the Business Transformation Programme efficiencies. A strategy for addressing the remaining shortfall will need to be developed later in the year. This will include reviewing key planning assumptions in relation to inflation, Government grant increases in 2011/2012 and future years and Council Tax increases from 2010/2011 onwards to reflect changes in the wider economy. The development of this strategy will commence after the Mayoral Election in June, 2009.
- 2.3 The attached document (**Appendix A**) compliments the reports approved in February, 2009 and provides a bridge between the approved 2009/2010 budget and the development of future years budgets. As indicated in the previous paragraphs the Business Transformation Programme is a key element of this strategy.
- 2.4 The MTFS document does not include any new issues for Members consideration. It brings together information previously reported separately into a single document which covers the following key areas:
- Council objectives;
 - Resource Availability;
 - Financial Planning;

- Setting the Budget and Council Tax;
- Budget Management;
- Service Budgets;
- Capital Strategy;
- Treasury Management

3. RECOMMENDATION

- 3.1 It is recommended that Members approve the MTFS document and note that this forms the basis for developing future detailed budget strategies.



MEDIUM TERM FINANCIAL STRATEGY 2009/2010 TO 2012/2013

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- Purpose of this Section
- History of Hartlepool Council
- Long-term Vision
- Key Outcomes

RESOURCE AVAILABILITY

- Purpose of this Section
- Specific Grants
- Formula Grant
- Council Tax
- Fees and Charges
- Use of Reserves

FINANCIAL PLANNING

- Purpose of this Section
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- Economic Outlook and Inflation
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- Efficiencies, Business Transformation and Value for Money
- Risk Areas and Strategies
- Sensitivity Analysis and Scenario Planning

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- Local Government Finance Settlement
- 2009/2010 Budget and Council Tax
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- Vision – Our priorities for Capital Expenditure
- The Council's approach to funding Capital Investment
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- Purpose of this Section
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APPENDICES

FOREWORD

We are pleased to introduce the Council's Medium Term Financial Strategy 2009/2010 to 2012/2013 (the Financial Plan).

The Financial Plan is a key component in achieving the Council's priorities in a cost effective way. The Financial Plan details how we will use our resources to contribute towards the long-term vision for Hartlepool which has been developed, following extensive consultation by Hartlepool Partnership and is

“Hartlepool will be a thriving, respectful, inclusive, healthy, ambitious and outward looking community, in an attractive and safe environment, where everyone is able to realise their potential”.

Since becoming a Unitary Authority in April, 1996, the Council has made excellent progress in delivering high quality services and improving the quality of life of people in Hartlepool. In the Audit Commission's latest Comprehensive Performance Assessment (CPA) the Council has received the highest possible ranking of '4 stars' and 'improving strongly'. This assessment has once again ranked Hartlepool Council as one of the top performing councils in the country. Hartlepool is one of only thirteen councils to have received the maximum CPA rating of 4 stars/excellent every year since CPA began seven years ago.

Our financial plans have enabled us to target resources towards our priorities. In the initial years after reorganisation this involved increasing and then maintaining Education expenditure, which laid the foundation for improvements in school performance. More recently significant additional resources have been provided for Adult Social Care Services and Children's Protective Services to protect the most vulnerable members of our society.

The public sector faces an increasingly challenging financial position owing to the impact of the recession. It is clear that the Government's next three years spending review and probably the following one will see a period of much lower growth in public spending. National priorities in relation to Education and Health are expected to be given priority. It is expected that local authorities will receive lower settlements than those areas and may actually see grants frozen at current levels or even reduced.

Councils also face increasing demographic pressures on their budgets owing to an ageing population and medical advances. These trends are not reflected in anticipated grant allocations and unless action is taken at a national level councils will need to make some difficult decisions.

The Financial Plan sets out the implications these issues will have on our financial position the strategy for dealing with this situation. This strategy includes the implementation of a Comprehensive Business Transformation Programme. The Audit Commission in March, 2009, stated **“the Council has well thought out plans for the future, including a major Business Transformation Programme to deliver significant improvements in value for money”.**

We recognised that the Business Transformation Programme will not address the whole of the financial challenges we face and we will need to make some tough decisions to meet these challenges. We will be developing our strategy for dealing with the financial challenges in the coming months, before consulting on these proposals. Final proposals will then be agreed later in the year.

Stuart Drummond
Mayor

Paul Walker
Chief Executive

SECTION 1 - COUNCIL OBJECTIVES

Purpose of this Section

This section provides a brief history of Hartlepool Council, our long-term vision and key outcomes we have set for the Council. These factors provide the foundations for planning services and prioritising resources.

History of Hartlepool Council

The Financial Plan outlines how we will use our resources to achieve the Council's vision for the future and this reflects where we have started from. The Council only became responsible for providing all local authority services in April 1996 when the former county council was replaced with four new unitary councils. We welcomed this change as it meant decisions about the services Hartlepool people receive and how the town develops are taken by local people. Since becoming responsible for all services we have made some significant changes in how resources are allocated which have played a key role in making Hartlepool a successful and high performing Council. These issues are summarised in the following paragraphs and provide the foundations for the future.

In the first year as a Unitary Council we faced a challenging budget position as the level of Government funding allocated to the new authority was less than the aggregate amount paid to the Council directly or via the former County Council in the previous financial year. This meant the Council faced an immediate financial challenge when balancing the budget in 1996/1997 as we had fewer resources than the predecessor councils.

Despite this challenging financial legacy the Council was committed to increasing resources for the Education Service. In 2000/2001, the Council's fifth as a unitary authority, the first objective of increasing total Education expenditure up to the level of the Education Standard Spending Assessment (SSA) was achieved. The delivery of this milestone was a major achievement for the Council as it delivered a cumulative increase in Education spending of £7.2m (20%) between 1996/1997 and 2000/2001. This increased the proportion of the budget allocated to Education from 48% in 1996/1997 to 51% in 2000/2001. This was funded by reducing expenditure in all other areas, with the exception of Social Services which was maintained at 20% of total budget over this period. The increase in resources allocated for Education services laid the foundations for improving Educational attainment.

Further real term increases in Education budgets were made up until 2002/2003 when the Council achieved the second objective of increasing School based budgets up to the School Based SSA. Again this was funded by prioritising Education above other services.

From 2003/2004 to 2005/2006 the Council fully passported increases in Education and Social Services SSAs and FSSs (Formula Spending Shares – which replaced SSAs) - despite these increases not being matched by increases in Government grants. The funding shortfalls were partly funded by reducing expenditure in other areas and from Council Tax increases.

From 2005/2006 the MTFs provided inflationary uplifts for all areas and additional top up for demographic pressures and specific priorities, for example investment in recycling initiatives and the implementation of the Beach Lifeguard service.

Social Services also received additional resources over this period to address demographic pressures and also to implement service improvements. For example, in 2002/2003 additional resources were provided to increase Residential Care Home Fees and to pay for improved facilities for residents.

For a number of years the Council benefitted from a number of one-off factors which increased reserves. These resources are earmarked to support the revenue budget on a phased up to 2011/2012. This strategy enables the Council to protect services pending replacement of these resources from increases in ongoing Government grant funding and the achievement of efficiencies. It was originally anticipated that these measures would offset the phased reduction in reserves.

Looking to the future the Council faces a challenging financial position as costs are rising faster than resources. This is mainly owing to increasing demand on Children's Services and Adult Social Services. To address the shortfall in resources we are implementing a Business Transformation Programme and this will deliver £5.96m of efficiencies. Further reductions maybe required and a strategy for achieving the remaining reductions will be developed during 2009.

Long Term Vision

Our long-term vision is set out in the Corporate Plan and sets out where we want to be in twenty years time:

“Hartlepool will be a thriving, respectful, inclusive, healthy, ambitious and outward looking community, in an attractive and safe environment, where everyone is able to realise their potential”.

This vision has been developed by the Hartlepool Partnership (the Local Strategic Partnership) which was created in 1999 as a way for organisations delivering services to local people and businesses to plan and work together to deliver better and improved services.

The Community Strategy themes reflect the priority targets included in Hartlepool's Local Area Agreement (LAA). LAAs are a Government initiative to deliver a better quality of life for people through improving performance on a range of national and local priorities. The LAA helps co-ordinate the work of the Council, our local partners and Central Government, represented by Government Office for the North East. Hartlepool's LAA was signed in June, 2008 with most targets agreed. Some were left because information was not available. Over the past few months the LAA has been reviewed and the remaining targets agreed in March, 2009. A further review is scheduled for late in 2009.

The Council's priorities are grouped into nine sections – one for each of the eight Community priority aims (see below) and one related to those activities that are designed to improve the way in which the Council works and priorities services – Organisational Development.

Community Strategy Themes and Priorities

- Jobs and the Economy
- Lifelong Learning and Skills
- Health and Well-being
- Community Safety
- Environment
- Housing
- Culture and Leisure
- Strengthening Communities

Further details on the above themes and priorities are provided in Appendix 1.

Key Outcomes

Details of the key outcomes for each of our priorities and the main Hartlepool Local Area Agreement (LAA) issues which will be addressed are summarised below. This section also highlights key budget allocations for 2009/2010. Further details are provided in the Corporate Plan.

Jobs and the Economy

Priority Outcomes

- Attract Investment
- Be Globally Competitive
- Create more employment opportunities for local people ensuring that they are prepared for working life* (Children and young people will achieve the qualifications, develop the skills and be given the necessary life experiences to enable them to lead full and active adult lives)
- Promote Hartlepool's interests in economic regeneration policy making at the national, regional and sub-regional levels
- Support and promote appropriate physical and economic regeneration and pursue external funding opportunities

LAA Issues Addressed

- Outdated and unattractive business infrastructure
- Structural and infrastructure issues that affect long term growth potential
- Relatively low levels of productivity and employment
- Lack of skills, enterprise aspirations, poor employment offers and benefit dependency
- Young people's aspirations and participation in educational and training

Key Budget Allocations 2009/2010

- Area Based Grant allocations provide annual budgets of £2.1m for two years to continue a wide variety of schemes;
- A capital allocation of £0.35m for Regeneration and Economic Development match funding;
- Payment terms for Hartlepool companies reduced to ten days.

Lifelong Learning and Skills

Priority Outcomes

- Enjoy and Achieve* (Raise the achievement and standards of children and young people in the early years, primary and secondary phases of education);
- Provision of high quality learning and skills opportunities that drive economic competitiveness, widen participation and build social justice.

LAA Issues Addressed

- The gap between boys and girls education achievement;
- The gap between educational achievement for children and young people living within disadvantaged neighbourhoods and the town average;
- Overall low levels of academic and vocational achievement, in particular a high percentage of individuals with no qualifications and a low percentage of individuals with advanced and higher level skills and qualifications;
- Lack of ambition and aspiration amongst large sections of the school leaver and adult population;
- Limited enterprise education and entrepreneurial activity.

Key Budget Allocations 2009/2010

- Area Based Grant allocations provide annual budgets of £4.1m for two years to continue a wide variety of schemes;
- A capital allocation of £8.9m for improvement to schools;
- An additional allocation of £2m towards the up front costs of the Council's Building Schools for the Future (BSF) Programme. This brings the Council's total contribution to £3.7m, excluding in-kind support provided by a wide range of Council Officers. The Council is also committed to providing additional funding for one-off BSF costs in 2010/2011 and has agreed to underwrite the BSF capital scheme in the event of a funding shortfall.

Health and Well-Being

Priority Outcomes

- Improved Health;
- Be Healthy* (Children and young people will be physically, mentally, emotionally and sexually healthy, lead healthy lifestyles and choose not to take illegal drugs);
- Increased choice and control and retention of personal dignity;
- Improved Mental Health and Wellbeing;
- Easier Access to Services.

LAA Issues Addressed

- Higher than average mortality rates for cancer and cardiovascular disease. There is a high prevalence of lifestyle risk factors associated with both cancer and cardiovascular disease;

SECTION 1 – COUNCIL OBJECTIVES

- There are inequalities in the health experience of communities with Hartlepool, most starkly illustrated by the difference in life expectancy between the best and worst wards; over 13 years for men and almost 12 years for women;
- A very high rate of teenage conception. In 2005 the under 18 conception rate for Hartlepool continued to rise to 78 per 1000 female population 15 – 17 years;
- Designing services to enable people to be more independent, stay in their own homes and have more control over their packages of care and support. The personalisation agenda is also a key national policy.
- Closer working between social care and health service providers to improve services and efficiency.

Key Budget Allocations 2009/2010

- This theme has received the highest increase in funding in line with the Council's policy of protecting vulnerable people;
- Services for Working Age Adults have been allocated an above inflation increase of £1.1m (a 23% increase) to support adults with autism and high level, complex needs;
- Mental Health Services allocated an above inflation increase of £0.2m (a 28% increase) to support an increasing number of people with mental illness;
- Looked After Children's Services allocated an above inflation increase of £0.8m (a 95% increase) to meet the additional costs of caring for more children;
- Foster Services allocated an above inflation increase of £0.3m (a 29% increase) to meet increased demands;
- Services for Older People allocated an above inflation increase of £0.39m (a 4.5% increase) to address demographic pressures;
- Area Based Grant allocations provide annual budgets of £1.8m for two years to continue a wide variety of schemes;
- £130,000 capital allocation for disabled adaptations and facilities grants.

Community Safety

Priority Outcomes

- Reduce crime;
- Reduced harm caused by illegal drugs and alcohol;
- Improved neighbourhood safety and increased public confidence, leading to reduced fear of crime and anti-social behaviour;
- Reduced anti-social and criminal behaviour through improved prevention and enforcement activities;
- Stay safe* (Children and young people will live, grow and learn in safety, where parents, carers and all adults take responsibility for their safety and wellbeing).

LAA Issues Addressed

- Acquisitive crime (burglary and theft) and violent crime are the main problem crime types;
- Alcohol misuse is a significant issue in Hartlepool, with problems associated with binge drinking and under age drinking;
- Getting offenders properly engaged in drug abuse treatment;

SECTION 1 – COUNCIL OBJECTIVES

- Communities still have significant concerns about anti-social behaviour and analysis shows a correlation between areas which are affected by ASB and those affected by criminal damage (vandalism) and deliberate fires;
- Fear of crime is much higher in some areas of the town and therefore communities continue to need reassurance about what is happening in their neighbourhoods;
- Hartlepool has a high level of re-offending, when compared to the regional and national rates;
- During 2006/2007 and 2007/2008 there has been a significant rise in young people entering the youth justice system for the first time. A more targeted approach to service provision for these young people will be developed;
- Maintaining placement stability to provide the best possible change for Looked after Children achieve their full potential.

Key Budget Allocations 2009/2010

- Area Based Grant allocations provide annual budgets of £1.1m for two years to continue a wide variety of schemes;
- Annual capital allocations of £0.15m for three years commencing 2009/2010 for Community Safety Initiatives.

Environment

Priority Outcomes

- Deliver sustainable communities through high quality planning, new build and sensitive conservation and protect and enhance the local natural environment;
- Improve the quality of the local environment by having cleaner, greener and safer public, private and community spaces;
- Provide a sustainable, safe, efficient, effective and accessible transport system;
- Make better use of natural resources and reduce the generation of waste and maximise recycling;
- Prepare for the impacts of and secure local and global action to tackle climate change;
- Promote community involvement in positive action to reduce poverty through fair trade and promoting peace and security.

LAA Issues Addressed

- Meeting statutory recycling and composting targets to reduce the generation of waste and avoid EU fines;
- The overall level of public satisfaction with street and environmental cleanliness and differences in satisfaction between neighbourhoods;
- Accessibility of services through public transport, walking and cycling;
- Making a contribution to addressing climate change.

Key Budget Allocations 2009/2010

- A capital allocation of £1.9m for Local Transport schemes;
- Area Based Grant allocations provide two year funding allocations to continue a range of schemes to the end of March, 2011, including annual allocations for Environmental Enforcement Works (£155,000), Environment Action Team (£100,000) and School Environmental Action Officer (£25,000);

- Core environmental budgets have generally been increased by inflation or frozen at the 2008/2009 level.

Housing

Priority Outcomes

- Balancing Housing Supply and Demand;
- Improving the quality of existing housing;
- Meeting the Housing Needs of Vulnerable People.

LAA Issues Addressed

- Low and changing demand for some of the older housing in central Hartlepool;
- A significant shortfall of affordable housing. Rising waiting lists for social housing and a low turnover of stock has put significant pressure on the social housing stock;
- Further progress is required to meet the Government's target of bringing all social housing up to the Decent Homes Standard by 2010 and to increase the proportion of private housing in decent condition occupied by vulnerable residents to 0% by 2010 and 75% by 2016;
- The energy efficiency of housing stock needs to be improved to reduce fuel poverty and domestic CO2 emissions account for around 27% of the UK total;
- Have support and services in place to ensure residents live as independently as possible and we can identify those who may need support.

Key Budget Allocations 2009/2010

- A capital allocation of £4.5m for Housing schemes;
- The Council is committed to using Prudential Borrowing to facilitate strategic land acquisition to promote the development of private and social housing.

Culture and Leisure

Priority Outcomes

- Enrich individual lives, strengthen communities and improve places where people live through enjoyment of leisure, culture and sport;
- Cultural and leisure services, better meet the needs of the community, especially those from disadvantaged areas.

LAA Issues Addressed

- Relatively low levels of participation in sport activities and engagement in the arts and cultural activities;
- It is recognised that the need for improvements to the cultural and sporting infrastructure of the town;
- Address barriers to participation in culture and leisure opportunities which are strongly linked to poverty and disadvantage.

Key Budget Allocations 2009/2010

- A capital allocation of £3m towards the redevelopment of the Mill House Leisure Centre;
- A capital allocation of £0.1m for the Central Library;
- A capital allocation of £75,000 for the development of mini football pitches at Grayfields.

Strengthening Communities

Priority Outcomes

- To empower local people to have a greater voice and influence over local decision making and the delivery of services;
- Make a positive contribution *(Children and young people who live in Hartlepool are provided with the opportunity to participate fully in the life of the community);
- Improving quality of life and ensuring service providers are more responsive to neighbourhood needs with particular focus on disadvantaged areas;
- Improving Financial Inclusion;
- Freedom from discrimination or harassment;
- Ensure communities are well prepared to respond to emergency situations.

LAA Issues Addressed

- The overall level of satisfaction with the local area
- Differences in satisfaction between neighbourhoods
- Participation and satisfaction with decision making and involvement in the community

Key Budget Allocations 2009/2010

- Area Based Grant allocations provide annual budgets of £1.1m for two years to continue a wide variety of schemes;
- Annual capital allocation of £156,000 for three years for Neighbourhood Forum minor works programmes.

Organisational Development

Priority Outcomes

- Improving management and governance;
- Improving access and understanding between the Council and the Public;
- Improving Elected Member and Workforce arrangements;
- Improving efficiency and financial management.

SECTION 2 – RESOURCE AVAILABILITY

Purpose of this Section

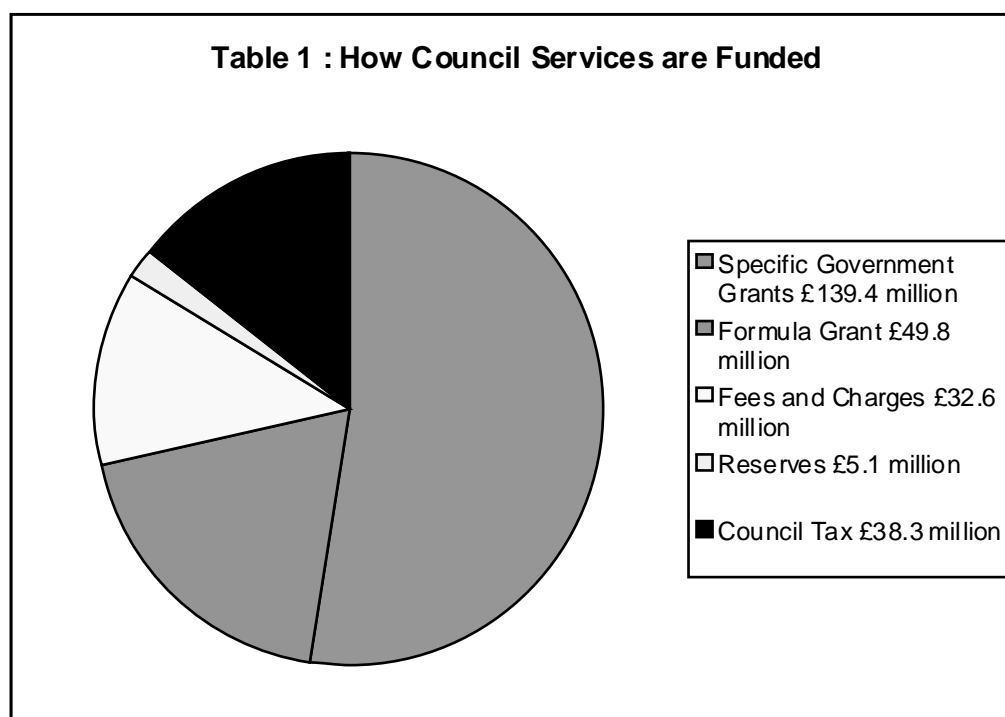
In Section 1 we outlined our long-term vision and key outcomes for each Community Strategy theme. The achievement of these outcomes is dependent upon the availability of resources, including skilled employees and finance. In this section we will outline the financial resources available to the Council.

Financial Resources

The main source of funding comes from Government grants and the Council receives three types of Government grants – Specific Grants, Area Based Grant and Formula Grant. The Council is also able to fund services from Council Tax, fees and charges and from using its reserves.

In 2009/2010 the Council will spend £265.2m and the following table shows how this spending will be financed.

Table 1 – How the Council's Gross Budget is Funded



Specific Grants

These are paid to fund specific services based on the Government's own priorities and include the following:

Dedicated Schools Grant of £59.7m

This grant is specifically earmarked for Education Services and the majority of this grant is passed to individual schools. A small proportion of this grant, about 9% is retained by the Council to pay for specific Education Services including support for children with Special Educational Needs and the costs of educating children excluded from school.

Benefit Subsidy Grant of £41.5m

This grant is paid to the Council to cover the cost of paying Council Tax benefit and rent allowances, which are national benefits administered by councils. This grant covers approximately 98% of the cost of paying these benefits. The remaining cost is funded from the Council's main budget.

Area Based Grant of £11.8m

This grant was first introduced in 2008/2009 and replaced a range of Specific grants. In theory the Council can decide how this grant is spent, but in practice this freedom is limited as this grant is needed to match existing commitments previously funded from specific grants, for example, the Connexions services, Children's Fund, etc. The Council has reviewed the use of the Area Based Grant and determined a strategy for using this grant over the next two years. The majority of this grant £11.5m will be allocated for specific projects and services as detailed in Appendix 2. In 2009/2010 £0.287m of the Area Based Grant, (increasing to £0.414m in 2010/2011) will be allocated to support core services.

Formula Grant

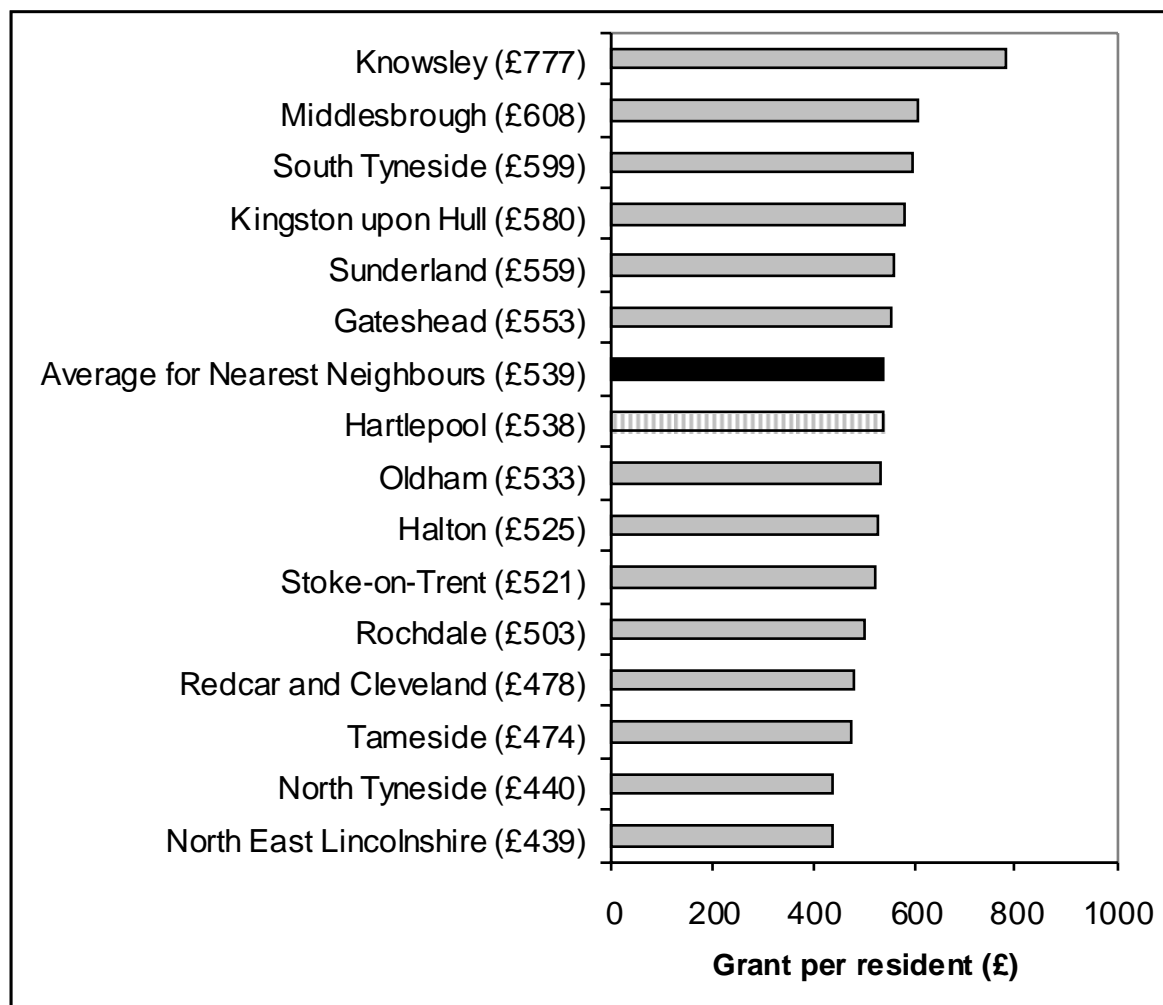
This £49.8m is the main revenue grant for local services and the Council has complete discretion on how this money is spent.

Nationally, the current three year formula grant settlement is regarded as the most challenging since 1997. Locally, the Council has benefited from changes in the methodology the Government uses to distribute Formula Grant, but we will not receive the full benefit of these changes as the "floor damping arrangements" will continue. These arrangements mean that areas such as Hartlepool lose grant to protect Council's in other parts of the country. The headline figures for Formula Grant are shown below.

Table 2 – Formula Grant Increases 2009/2010 to 2011/2012

	2008/2009	2009/2010	2010/2011
National Grant Increase	3.6%	2.8%	2.6%
Average Unitary Authority Grant Increase	4.7%	3.4%	3.0%
Hartlepool Grant Increase	6.0%	3.9%	3.4%

The Council remains concerned that floor damping arrangements mean Hartlepool receives lower grant funding than similar authorities which face similar challenges.

Table 3 – Formula Grant Allocations 2009/2010 – Comparison with CIPFA Family Group

Council Tax

Since becoming an all purpose authority in 1996/1997 the Council has been committed to minimising Council Tax increases. This policy reflected the Council's desire to protect both services and Council Tax payers.

The Council is committed to minimising future Council Tax increases, but also recognises that increases need to provide a sustainable resource base for future years. Therefore, for 2009/2010 the Council has approved a 3.9% increase. For 2010/2011 and 2011/2012 the Council has also approved indicative Council Tax increases of 3.9% per annum.

At a national level the Government compares Council Tax levels using Band D figures. This indicates Hartlepool has the eighth highest Band D Council Tax in 2008/2009 out of 354 Councils. The Council continues to be concerned that comparisons using Band D Council Tax levels are misleading and it is more appropriate to make comparisons using the average Council Tax per household. Hartlepool's average Council Tax for 2008/2009 was £1,082, compared to a national average of £1,191. This means Hartlepool has the 247th lowest average Council Tax per household out of 354 authorities.

Fees and Charges

The Council's existing Medium Term Financial Strategy is based on annual increases in fees and charges of 2.5% per annum. Individual departments have the flexibility to implement higher or lower increases. The Council has determined to undertake a corporate review of pricing policies as part of the 2010/2011 budget process.

Use of Reserves

A specific Budget Support Fund has been established to support the revenue budget over the next three years and will provide total support of £7m over this period. The availability of this reserve will provide a period of financial stability which will assist the Council to reduce costs to a sustainable level. This reserve will be fully used by the end of 2011/2012. Further details of the Council's strategy for reserves are provided in Section 4.

SECTION 3 – FINANCIAL PLANNING

Purpose of this Section

This section provides an overview of the Council's planning process and our assessment of the economy and inflation and how these factors impact on the Council. The section also details how we address demographic and service pressures, our approach to efficiencies, Human Resources planning, risk areas and sensitivity analysis.

Planning Process

The Council plans on a rolling three year basis through our service and financial planning process and the timetable for these processes are aligned for this purpose.

The Cabinet and Corporate Management Team (CMT) make proposals about how resources could be allocated to deliver the Council's priorities, incorporating external policy drivers, the Council's internal strategies and the impact of proposed capital investment plans and other one-off issues. These proposals also include the consideration of Council Tax levels and linkages with our Business Transformation Programme.

The initial budget proposals are subject to detailed consultation with our non executive members, business rate payers and trade unions. Feedback from this initial consultation is considered by Cabinet before finalising the draft budget proposals which they wish to put forward for a second phase of consultation.

Following this second phase of consultation Cabinet then finalises the budget proposals to be recommended to Council for the forthcoming year. This report also provides details of the provisional budgets and indicative Council Tax level for the following two years.

Appendix 3 provides more details of this process, including when the various stages take place. Appendix 4 details the Budget Timetable.

Economic Outlook and Inflation

Financial planning needs to take account of the economic outlook and the impact of inflation. Uncertainty around these issues provides an inherent risk to financial planning. Until very recently these risks were considered fairly low as the Government had provided Council's with a three year grant settlement and inflation and interest rates were expected to be fairly stable.

As we have seen from recent events the economic outlook has changed very significantly and the world economy has entered into a deep recession. The speed and intensity of this deterioration in the economic outlook has surprised Governments and Central Bankers around the world. Consequently, policy makers are still implementing measures to try and combat the depth and length of the recession and to lay the foundations for growth.

The current economic downturn will affect the public sector for many years to come and the Government will need to bring expenditure into line with resources in the medium term. The Chancellor has already announced a reduction in the overall level of public sector growth to only 1.1% in the next Comprehensive Spending Review. It is expected that the majority of this growth will be directed to the Government's Health and Education priorities. Therefore, funding for Council's will increase at a slower rate or may even reduce.

The economic downturn will reduce the overall level of inflation. However, inflation in the public sector is driven by other factors, such as changes in the minimum wage. Therefore, in the financial plan an annual provision for non pay inflation of 2.5% has been made. This will be reviewed during 2009.

For pay increases a provision of 1.5% has been made for 2009/2010. For 2010/2011 and 2011/2012 the provision for pay inflation is 2.5%, as from April, 2011, there will be a 0.5% increase in employers National Insurance rates. It is expected Pension contributions may need to increase if the economy does not recover quickly.

In 2009/2010 the financial plan also includes specific provision for higher utilities costs to reflect increases in market prices and the expiry of previous fixed term contracts.

Demographic and Service Pressures

The financial plans need to make provision for demographic and service pressures which arise from the diverse services provided by the Council. For 2010/2011 headroom of £1.5m is provided for these items and a further £2m in 2011/2012 and 2012/2013.

One of the major risks facing councils is the increasing number of people over 85 years old and also the numbers suffering dementia. Additional funding has been provided in the 2009/2010 budget for these areas and this will be a major call on the headroom included in the financial plans for future years.

A detailed assessment of these risks is undertaken as part of the annual updating of the financial plan.

Efficiencies, Business Transformation Programme and Value for Money (VFM)

The Government requires local authorities to make efficiencies of 3% per year over the three years 2008/2009 to 2010/2011. For this Council this equates to approximately £2.5m per year and these amounts are reflected in the financial plan.

For 2008/2009 the Council is on target to deliver these efficiencies. Figures provided by the Government for 2008/2009 show that the Council is performing well in achieving efficiencies and for 2008/2009 our efficiencies equate to £115 per Band D property, compared to £78 for similar authorities.

In practice, the Council will need to achieve higher efficiency targets if it is to avoid cuts to services.

A Business Transformation Programme has been approved and this aims to deliver £5.9m efficiencies. This programme will be the most significant change to the Council since it became a unitary authority in 1996. These efficiencies will be phased over a number of years, as follows:

Table 4 – Summary of Business Transformation Efficiencies

	Annual Efficiency £'000	Cumulative Efficiency £'000
2009/10	0	0
2010/11	2,088	2,088
2011/12	1,105	3,193
2012/13	2,020	5,213
2013/14	0	5,213
2014/15	0	5,213
2015/16	427	5,640
2016/17	320	5,960

The Business Transformation Programme reflects five work streams:

	<u>Full Year Efficiency Target £'000</u>
Restructure and Management Structure	1,850
Transactional Services	900
Non-Transactional Services	300
Asset Management	510
Service Delivery Options	<u>4,600</u>
	8,160
Provision for overlap with efficiencies implemented 2008/2009 and 2009/2010 and estimation errors	(2,200)
	<u>5,960</u>

The Service Delivery Options Workstream will make the largest contribution to the overall Business Transformation target and will be based on detailed option appraisals and business cases for how services are delivered in the future.

In 2008 a detailed assessment of our current ICT contract was undertaken in preparation for the contract ending in 2011. As a result of this review and an assessment of the alternative options it was determined to extend the existing contract for three years. This decision provides a total efficiency of £1m.

The Council's approach to efficiencies, Business Transformation and commitment to improve services underpin our commitment to deliver VFM. The latest CPA report (issued in March, 2009) **“stated the Council provides good value for money. The Council has well thought out plans for the future, including a major business transformation programme to deliver significant improvements in value for money”**.

Human Resources (HR) Planning

The largest component of our budget relates to staffing costs and decisions to change services or budget allocations invariably have implications for HR planning.

In 2008/2009 we implemented a new pay and grading structure for the majority of Council employees. This included the introduction of a single pay scale and the harmonisation of other terms and conditions of employment. These changes will have an ongoing impact on the Council and its employees for many years. The new pay scale is designed to reward all employees fairly and to provide structured career paths to enable us to develop the work force we need to continue to deliver services.

The continued drive to achieve efficiencies and implement the Business Transformation Programme will mean that in some areas we need less staff than we currently have. We will try to manage these reductions through voluntary reductions, redeployment and retraining. Compulsory redundancies will only be used where there is no viable alternative. To facilitate this policy we maintain a redeployment list, implement recruitment freezes when we need to reduce employee numbers. We also operate a corporate assessment process for considering whether vacant posts need to be filled.

The Council is also committed to training existing employees obtain qualifications which enable them to do their job better and develop their careers. We are also committed to providing apprenticeship opportunities to school leavers.

Risk Areas and Strategies

The financial plan is underpinned by a detailed financial Risk Management Strategy which identifies the nature of the financial risk, risk rating, value of budget and details of the Risk Management arrangements.

A key area of risk is finalisation of Job Evaluation and additional resources have been provided in the Financial Plan based on the latest assessment of this area. Similarly, additional resources have been provided for Adult Social Services and Children's Services in the 2009/2010 base budget.

The Financial Plan also provides a contingency of £0.4m for new risks identified as part of the budget process. These resources will be allocated to individual budget holders to manage on a ring fenced basis. The Corporate Management Team (CMT) will also manage the overall contingency and reallocate resources to match actual commitments.

The other major area of risk is investment income following the significant falls in interest rates since October, 2008. These reductions have partly been mitigated by making advance investments in accordance with the Council's Treasury Management Strategy. This action will provide some protection from lower interest rates although the Council's overall return will be lower than in previous years. This reduction will not directly impact on the Financial Plan as a prudent approach is taken to investment income and we only budget for income which is certain to be achieved. The reduction in investment income will reduce our ability to deal with one-off issues which may arise in the next three years.

Sensitivity Analysis and Scenario Planning

The financial plan makes certain assumptions in respect of resources. For the purposes of setting the annual budget a most likely assumption is made. This approach enables Members to clearly see the impact of their decisions on the proposed budget for the forthcoming year and subsequent years. This approach is appropriate against a stable financial background where Members have given a clear lead on Council Tax increases for three years and the Government have provided a three year settlement, which notwithstanding the current economic turmoil is not expected to change.

The position on Government funding beyond the current three year settlement is less certain and there is a greater risk that the actual grant increase will be lower than previously forecast. We have therefore reduced our planning assumption for Government Grant increasing for 2011/2012 and 2012/2013 to 0.5%.

The financial plan also makes assumptions in respect of pay awards and non-pay inflation.

The main assumptions and the impact of a 1% variation are summarised below:

Table 5 – Main Assumption and the Impact of a 1 % Variation

Provision included in Financial Plan					Impact of a 1% change in planning assumption £'000
2009/10	2010/11	2011/12	2012/13		
3.9%	3.4%	0.5%	0.5%	<u>Income issues</u> Formula Grant	+/- 500
3.9%	3.9%	3.9%	3.9%	Council Tax Increase	+/- 380
27,622	27,622	27,622	27,622	Council Tax Base	+/- 380
2.5%	2.5%	2.5%	2.5%	Income from fees and charges	+/- 250
1.5%	1.5%	2.5%	2.5%	<u>Expenditure Issues</u> Pay Cost - covers cost of living Pay awards, increases in employers national insurance and pension contributions	+/- 300
2.5%	2.5%	2.5%	2.5%	Non-pay inflation	+/- 200

SECTION 4 – SETTING THE BUDGET AND COUNCIL TAX

Purpose of this Section

This section provides an overview of the key financial issues for the current year and next three years covering:

- Budget Outturn 2008/2009
- Local Government Finance Settlement
- 2009/2010 Budget and Council Tax
- 2010/2011 to 2012/2013 Budget Outlook and
- Strategy for Using Reserves

Budget Outturn 2008/2009

As part of the budget planning process a comprehensive review of the financial position for 2008/2009 was undertaken. The aims of this review were to develop a strategy for addressing any issues arising in the current year and to identify trends impacting on future years budgets. The review of the 2008/2009 budget position identified three key issues.

Firstly, despite the significant reductions in the Bank Rate from 5.5% in December, 2008 to 0.5% in March, 2009, interest earned in our investments will exceed the budget by £2m. This position reflects our proactive Treasury Management Strategy. This additional income has been earmarked for the following commitments:

- £1.5m towards the one-off costs of the Building Schools for the Future Programme.
- £0.5m to establish a Tall Ships risk reserve. This amount is ring fenced to manage the risk that income from this event is lower than expected, either as a result of the recession or unseasonal weather at the time of the event.

Secondly, the Council will receive a £2.9m one-off grant from the final allocation of monies from the Government's Local Authority Business Growth Incentive Scheme (LABGI). Part of this amount £2.1m has been allocated to provide additional temporary support for the 2009/2010 to 2011/2012 budgets. The remaining £0.8m has been allocated to manage the risk that future income receipts from the sale of houses by Housing Hartlepool will be received over a longer period than previously anticipated owing to the impact of the recession. As these resources have already been committed to supporting the budget in 2010/2011 and 2011/2012 this action addresses this risk.

Thirdly, expenditure on services in 2008/2009 was forecast to exceed the budget by £2.5m predominately owing to increased demand for Adult Social Services and Children's Services. We explored various options for funding these additional costs, including requiring departments to repay these amounts over a three year period from future budgets. As these issues are ongoing trends we decided that this approach was not appropriate as it did not protect services and carried a significant financial risk into future budgets.

To address this issue it was decided to increase the value of capital expenditure funded from Prudential Borrowing by £2.5m. This proposal released resources which can be transferred back to the revenue budget to offset the service overspends. The revenue consequence of this strategy is reflected in the financial plans and is partly mitigated by the significant reductions in interest rates.

The financial plans for 2009/2010 onwards include additional resources for continuing trends emerging in 2008/2009, as detailed in Appendix 5. The provision of these additional resources should avoid this situation arising again. Procedures for managing budgets are detailed in Section 5.

Local Government Finance Settlement

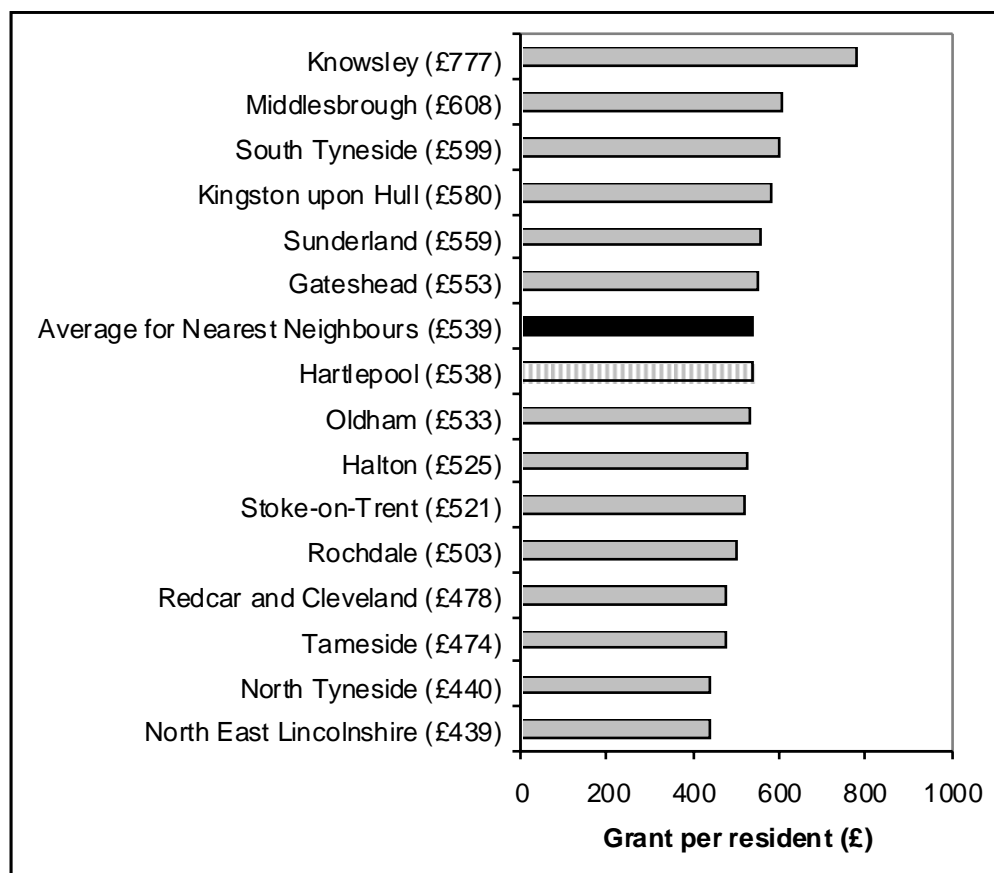
The Local Government Finance Settlement plays a significant part in our financial plans as it determines the amount of grant we receive. The key component of the settlement is the general grant, known as Formula Grant, as this is the main source of unring-fenced funding and funds 19% of our gross budget.

The current settlement covers a three-year period – 2008/2009 to 2010/2011, although grant allocations are subject to annual review. In January, 2009, the Government confirmed they would not be changing the provisional 2009/2010 allocations. This announcement was welcomed as it provides a period of stability. It is hoped the provisional 2010/2011 allocations will be confirmed in December, 2009.

Nationally, the current settlement is regarded as the tightest in a decade, particularly, as a result of the significant pressures resulting from Adult Social Care and Children's Services.

Locally, we have benefited from slightly better increases owing to changes in criteria used to distribute grants more fairly to all Councils.

The following table compares Hartlepool's 2009/2010 grant per head with similar authorities and highlights our grant is just below the average.

Table 6 – Formula Grant per Head 2009/2010

However, the increase in Hartlepool's grant has been reduced to ensure other Councils receive a minimum "floor" increase. These arrangements mean we should have received a grant increase of 9.9% (£4.7m) but our contribution to the floor reduces this increase to 3.9% (£1.9m). This increase compares to a "floor" increase for Unitary Council's of 1.75%.

Over the lifetime of the current three year settlement our aggregate contribution to the grant floors will be £8.5m. We are continuing to lobby the Government to address these issues.

We are concerned that under the existing "floor" arrangement it will take a further six years to bring our grant level up to the level the Government assess we need, although the Government have not committed to phasing these arrangements out over this period. We are also concerned that whilst our grant funding per head is better than the unitary average it is lower than many similar authorities which face similar service and financial issues as highlighted in the following tables.

Table 7 – Floor Damping Gain or Loss

Local Authority	Floor Damping gain/(loss) £' million	Floor damping gain/(loss) as a percentage of actual grant	Grant per resident £
North East Lincolnshire	(4.82)	(6.9%)	439
Stoke-on-Trent	(8.23)	(6.7%)	521
Oldham	(7.22)	(6.1%)	533
Kingston upon Hull	(8.67)	(5.9%)	580
Hartlepool	(2.84)	(5.7%)	538
Rochdale	(5.83)	(5.5%)	503
Redcar and Cleveland	(3.26)	(4.9%)	478
Tameside	(4.94)	(4.8%)	474
Middlesbrough	(2.53)	(3.1%)	608
Halton	(1.82)	(2.9%)	525
Sunderland	(1.68)	(1.1%)	559
South Tyneside	0.78	0.9%	599
North Tyneside	0.84	1.0%	440
Gateshead	2.46	2.4%	553
Knowsley	3.57	3.1%	777

Beyond the current three-year settlement the position is much less certain owing to the impact of the recession on the public sector finances. It is becoming increasingly clear that the next three-year settlement and probably the following settlement, will be even tougher than the current settlement and local authority grants will increase at a much slower rate or may even be frozen. We will begin to address this issue later in the year when the financial plan is rolled forward.

2009/2010 Budget

The 2009/2010 budget was extremely challenging and sets the scene for the financial and service challenges facing the Council in the medium term.

As outlined earlier in this report we faced a number of challenges balancing the budget. This included higher than anticipated increases in the resources for Adult and Children's care services to protect vulnerable adults and children. The cost of implementing the new pay and grading systems were also higher than initially forecast.

These additional commitments were partly offset by the following factors:

- the identification of £2.46m efficiencies;
- the increase in Formula Grant of £1.9m;
- the increase in Council Tax of 3.9% which generated £1.5m;
- review of corporate planning assumptions, including reducing the provision for pay awards and increasing the staff turnover allowance - £0.6m in total;

- review of proposed pressures for 2009/2010 and pressures approved in the previous two years which reduced costs by £0.695m.

After reflecting the above factors we faced a net deficit of £1.5m. It was decided to bridge this deficit by using the additional one-off resources identified within the 2008/2009 outturn strategy. This strategy does not address the underlying structural budget deficit, but provides a longer lead time to develop a sustainable strategy which is integrated with our Business Transformation Programme.

A summary of the 2009/2010 budget is provided in Appendix 6.

2009/2010 Council Tax

For 2009/2010 we increased Council Tax by 3.9% and set a Band D Council Tax of £1,384. The majority of people in Hartlepool (60%) are in Band A properties and for them the Council Tax level is £923, an increase of 67p per week.

Details of how we spend Council Tax are summarised below and further details provided in Appendix 7. These figures include the Council Tax set by Cleveland Police Authority and Cleveland Fire Authority.

Table 9 – Band A Council Tax – How it is Spent

	Band A £
<u>Services</u>	
Adult Social Services	280.77
Children's Services	237.75
Recreation & Tourism	53.06
Highways & Transport	55.15
Loan Repayments	71.82
Other	53.29
Refuse Collection & Disposal	47.98
Environmental Services	38.17
Planning & Development	38.47
Libraries	20.09
Community Safety & Youth Offending	17.62
Consumer Services	8.57
Council Tax For Hartlepool Borough Council Services	922.74
Cleveland Police Authority	121.65
Cleveland Fire Authority	41.05
Council Tax For Hartlepool Borough Council Area	1,085.44

2010/2011 to 2012/2013 Budget Outlook

The financial plans have been rolled forward to include 2012/2013. These forecasts show that we will be facing increasing financial challenges in the next few years as expenditure pressures are greater than increases in resources. The financial plans provide an allowance for expenditure pressures, £1.5m in 2010/2011 and £2m in 2011/2012 and 2012/2013. The financial plans anticipate cumulative efficiencies of £10m will need to be achieved by March, 2012. The Business Transformation Programme will contribute £5.2m towards this overall efficiency target.

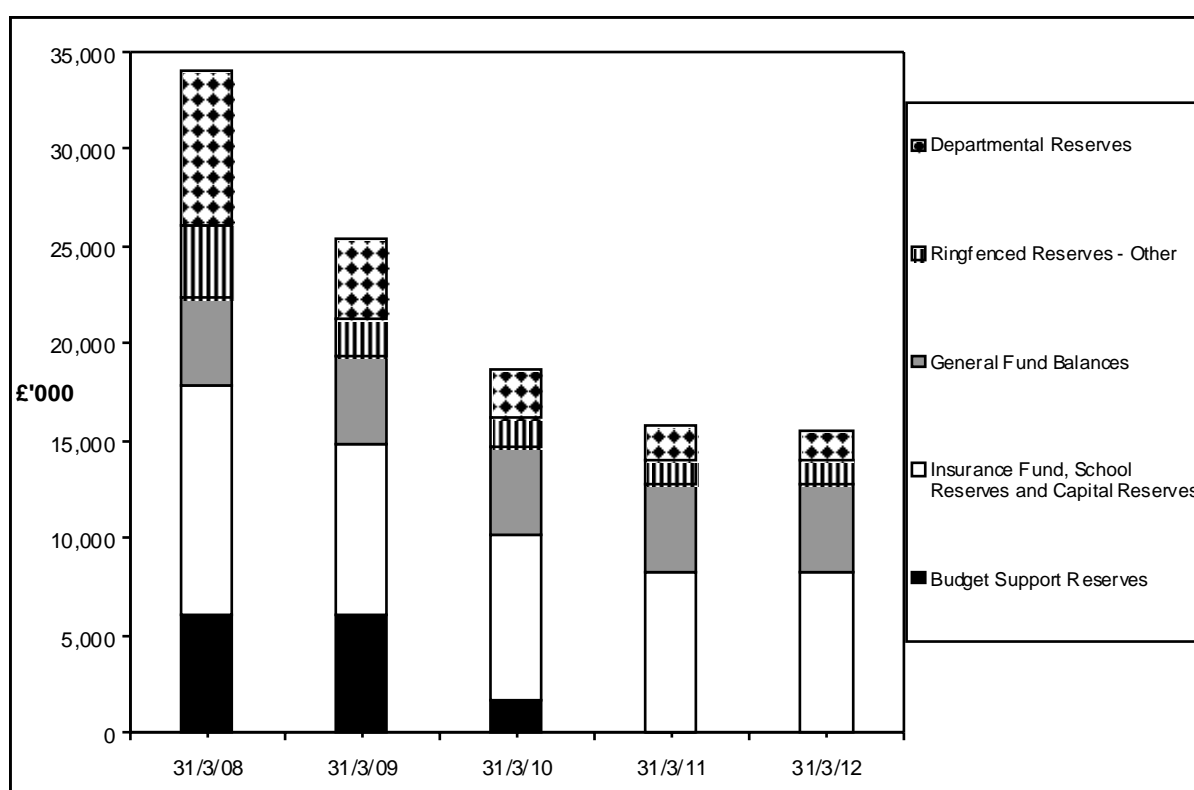
After reflecting the Business Transformation Programme, the Council faces a structural deficit which needs to be addressed over the next two years. A strategy for bridging this gap will be developed during 2009/2010 to provide adequate lead times to achieve the necessary budget reductions.

Appendix 6 summarises the budget positions for 2010/2011 to 2012/2013.

Strategy for Using Reserves

Reserves are held to manage services and risks over more than one financial year. In total at the start of 2009/2010 it is estimated we will have total reserves of £25.5m. These reserves are committed to supporting expenditure over the next three years and reserves are forecast to reduce to £15.5m by 31st March, 2012.

Table 10 – Summary of Reserves 2009/2010 to 2011/2012



The **Budget Support Fund** is the single largest reserve and is earmarked to support the revenue budget over the next three years. The availability of this reserve will provide a period of financial stability, which will enable a strategy to be developed to reduce costs to a sustainable level. This reserve will be fully used by the end of 2011/2012.

School Reserves are held in trust by the Council on behalf of our schools. School Governors decide how these reserves are used. Generally schools use reserves to manage their own budgets over more than one financial year and to finance one-off projects, such as improvements to school buildings.

Ring-fenced Reserves and Departmental Reserves are earmarked for specific commitments and include resources for the Tall Ships Visit in 2010 and Building Schools for the Future costs.

The **Insurance Fund** is earmarked to meet current and future insurance liabilities.

The **General Fund Balance** is earmarked for unforeseen commitments and equates to approximately 3% of the Council's budget, which is the level we have decided it is appropriate to maintain.

SECTION 5 – BUDGET MANAGEMENT

Purpose of this Section

This section provides an overview of our approach to managing risk, in particular financial risks arising from inflation, demographic and service pressures and Job Evaluation. The section also details our arrangements for ensuring the robustness of the budget and the procedures for managing the budget once it is set.

Risk Strategy

The proposals outlined in the financial plan are underpinned by our Comprehensive Risk Management Strategy. The Council's Risk Register is reviewed and updated on a bi-monthly basis by the Corporate Risk Group.

There are risks involved in any forecast of future income and expenditure, which affect both short and long term forecasts. These issues are assessed and reviewed at least annually and the main items are detailed in the following paragraphs.

Inflation

Inflation in the Public Sector historically exceeds the Government's Consumer Price Index (CPI) as the sector is subject to different inflationary pressures, such as pay awards and the national minimum wage and does not benefit from reductions in the price of consumer goods. Therefore, whilst general inflation has been relatively subdued in recent years and deflationary trends are beginning to emerge, we need to make prudent provisions for inflation.

For 2009/2010 our financial plans include 1.5% for the Local Government pay award. For 2010/2011 and 2011/2012 a provision of 2.5% is made for pay awards and increases in National Insurance and Pension contributions. Provision for non-pay inflation of 2.5% is made for each of three years covered by the Financial Plan.

The Financial Plan also assumes that departmental fees and charges will increase by 2.5%. Departments have flexibility to implement difference increases, provided their budgets are within the agreed resource allocations. The Council is committed to undertaking a corporate review of pricing policies during 2009/2010 to inform future budgets.

Demographic and Service Pressures

In some instances above inflationary increases are required to meet our priorities. In 2009/2010 specific additional resources have been provided for a range of demographic and service pressures. The main items relate to increased pressure in Children's Services and Adult Social Services.

The Financial plans for the next three years includes cumulative headroom of £5.5m for future demographic and service pressures and will only be allocated after a robust assessment of the need for additional funding has been completed.

Job Evaluation

Following the successful implementation of a new pay and grading system during 2008/2009 this risk has reduced significantly. Provision has been included within the financial plans for the known costs of these changes. A provision has also been made for the potential costs of appeals and this area will be managed carefully.

Robustness of Budget

In accordance with the requirement of the Local Government Act 2003 our Chief Financial Officer is required to advise Members on the robustness of the budget forecasts and the level of reserves. The Chief Financial Officer was able to advise the Council that in his opinion the budget forecasts for 2009/2010 are robust and this opinion was based on the following factors:

- The detailed declarations provided by individual Directors on the robustness of their departmental budgets, including assurances that proposed efficiencies are achievable;
- Prudent provisions for pay awards and inflation during 2009/2010;
- A prudent assessment of the net cost of the Council's overall cash flow and Prudential Borrowing.

Management of Budgets

The Council has robust arrangements for managing budgets which includes:

- The allocation of budgets to named budget holders;
- The provision of monthly budget management information to named budget holders and support from departmental finance officers;
- Monthly management of the Council's financial position by the Corporate Management Team;
- Quarterly management of the Council's financial position by Cabinet and review by the Scrutiny Co-ordinating Committee.

The quarterly financial management information submitted to Cabinet identifies actual financial activity to the same period and the value and reason for the variance. The variance analysis identifies whether the variance is owing to actual expenditure or income being different from the forecast. The reports also detail the expected position at the year end. This predictive information enable corrective action to be taken to manage the overall budget position and also identified issues which need to be addressed in future years.

These arrangements are also supported by "Financial Procedure Rules" within the Council's constitution, which provides a framework for managing in-year budgets and the procedures for in-year budget changes. A summary of the Financial Procedure Rules is provided at Appendix 8 and the key issues are summarised in the following paragraphs.

The Financial Procedures Rules are designed to promote financial responsibility and accountability. One of the key areas of flexibility is the management of budget over more than one financial year, which enables departments to carry forward up to 10%, or £500,000, whichever is the lower of the approved budget as a **Managed Underspend**. Detailed plans for using Managed Underspends must be reported to Cabinet with the annual Outturn Report for approval. In previous years these arrangements have enabled departments to set resources aside for specific one-off commitments or service development.

As budgets have become more restricted departments abilities to use this facility has become restricted and departments may have to carry forward **Managed Underspends** and repay these amounts from future budget allocations. This approach was considered for 2008/2009 overspends but was not pursued owing to the demand lead nature of overspends and the adverse impact repayments would have on future years budgets.

Budgets in 2009/2010 will be managed carefully and if departmental budgets overspend appropriate strategies will need to be developed for addressing these issues, including carrying forward Managed Overspends. These strategies will need to address the reason for the overspend and the implications of carry forward overspends to be repaid from future years budget allocations.

SECTION 6 – SERVICE BUDGETS

Purpose of this Section

This section provides an overview of the main changes in departmental budgets and an overview of the key service delivered by the Council and the budgets allocated to these areas.

Main Budget Changes 2009/2010

When allocating its resources the Council considers service user needs, the implications for its strategic and service objectives and performance measures and allocates its limited resources to maximise the outcomes for the people of Hartlepool.

The impact of compliance with equalities legislation is also taken into account, specifically those areas where it is proposed to increase/decrease spending. This covers gender, disability, race, sexual orientation, religion and faith group. In broad terms for 2009/2010 budget proposals this assessment demonstrated the following key issues:

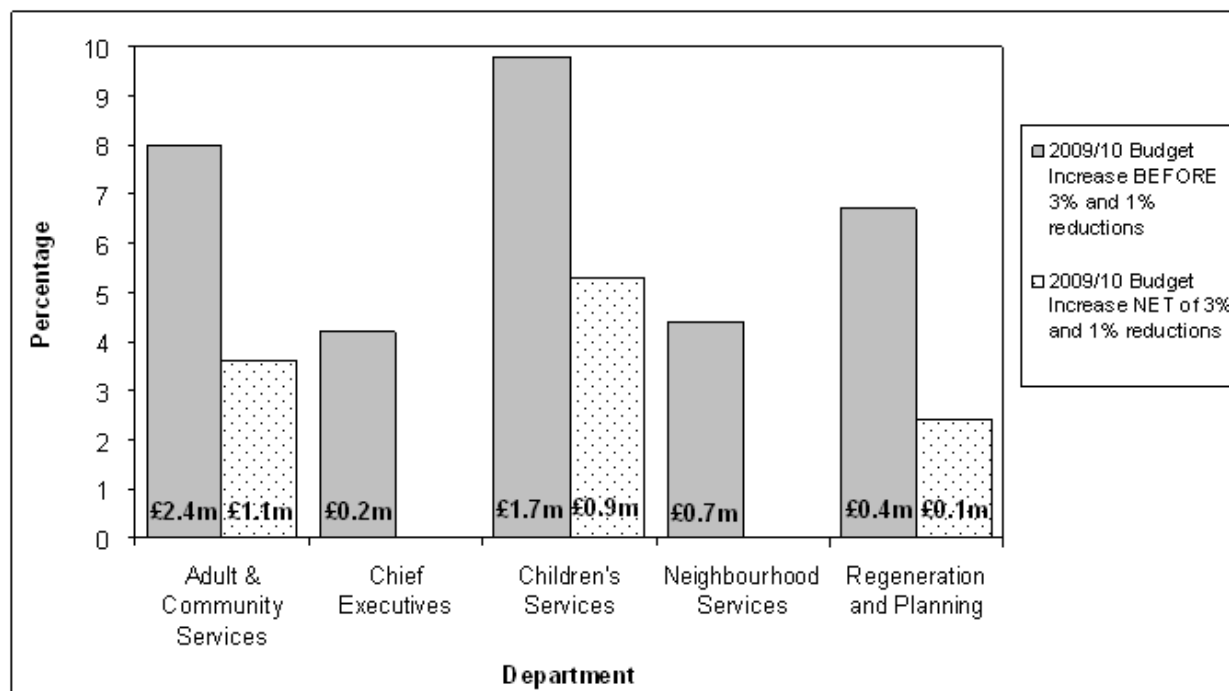
- Efficiencies are largely diversity neutral;
- Pressures have significant positive diversity impacts, particularly the provision of additional funding for Children's Services and Adult Social Services.

For 2009/2010 the Council has given the highest percentage increase to Children's Services which makes a major contribution to two Community Strategy themes – Lifelong Learning and Skills and Health and Well-being. These additional resources reflect the Council's commitment to protect vulnerable young people and enable them to achieve their full potential.

The second highest percentage increase has been provided for Adult and Community Services, which makes a major contribution to the Health and Well-being Community Strategy theme. The additional resources reflect the Council's commitment to support vulnerable adults with mental and physical disabilities, support for older people, including those suffering from dementia.

Regeneration and Planning services have received a small net increase in net resources. All other areas have achieved efficiencies to offset service pressures and this has enabled net spending in these areas to be frozen at 2008/2009 levels.

The 2009/2010 budget changes are summarised in the table below.

Table 11 – Gross and Net Budget Increase 2009/2010 (excluding impact of Job Evaluation)

SECTION 7 – CAPITAL STRATEGY

Purpose of this Section

This section provides a brief history of the key capital investments made since the 1990s and our capital vision and priorities for the future. The section also provides details of

- The Council's approach to funding capital investment
- The framework for managing and monitoring the Capital Programme
- Links to Partners and other strategies and plans

History – Where have we started from?

The Capital Strategy outlines the Council's vision for the future, which needs to build upon the work which has already been completed. During the 1990's the Council, together with its various partners, implemented major capital investment to improve the quality of life for Hartlepool residents, to create a sustainable economic base for Hartlepool and to transform the image of Hartlepool. This investment included:

- the development of Hartlepool Marina;
- the refurbishment of the Town Centre, including the redevelopment of the main Shopping Centre following its sale by the Council to a private developer;
- major private sector housing development, following the sale of surplus Council land and within a phased programme of housing market renewal;
- the refurbishment of residential homes for older people following their transfer to a not for profit organisation.

Hartlepool has been successfully revitalised as a result of this significant investment via the public and private sector. It now has a vibrant environment which is attractive to those who live, work and visit the town.

The transfer of the Council's housing stock to Housing Hartlepool, in April, 2004, has continued the revitalisation of the housing stock available for rent. Over a ten year period Housing Hartlepool will have invested £98 million in the housing stock it took over from the Council.

This strategy outlines how the Council, in conjunction with its partners, will continue the development of the town.

Vision – Our Priorities for Capital Expenditure

There are a number of key priorities for capital expenditure within the Authority, namely:

School and college facilities – Education is acknowledged as a high priority for the Council. The Council has successfully replaced one of its six secondary schools through a partnership with the Church of England. The Council has secured funding of £104m from the Government's Building Schools for the Future Programme which will be used to improve and address the suitability, sufficiency and sustainability of the secondary school estate. This investment will cover the replacement, or refurbishment, of five secondary schools and our pupil referral unit to provide modern facilities which will facilitate the "education transformation". In addition, the programme will include investment of around £9m in school's IT facilities and infrastructure to provide state of the art facilities. The Council will close one of its existing secondary schools as the town's future secondary education needs can be met from a reduced number of schools. These works are scheduled to begin in the Summer of 2010 and to be completed by the end of 2015.

The Council has also secured funding from the Government's Primary Capital Programme initiative to address the capital investments needs of its Primary Schools. The Council has secured an initial allocation of £8.4m for 2009/2010 and 2010/2011 which will enable the Council to begin to address the highest priority capital investment needs in its primary schools. In discussion with Government we will draw down early on the second years funding to accelerate the programme and stimulate the economy. Further funding will be required to complete this programme and it is anticipated that additional funding of £27m will be provided through the Primary Capital Programme from 2011/2012 onwards.

The Council is also working in partnership with Hartlepool College of Further Education to secure the development of new college facilities in the town centre. The College are seeking funding in excess of £50m from the Learning and Skills Council to fund this development. To facilitate this development the Council is selling the car park site adjacent to the existing college. This will enable the college to remain within the town centre and thereby benefit from existing transport links and the improvements in transport links which will flow from the completion of the "Transport Interchange". The central location of the college will also play a key role in the sustainability of the town centre and the shopping centre, as it will help secure the continued use of these facilities by students.

Adult Social Services – The Council has entered into long-term service agreements with the private and voluntary sectors for the provision of Adult Social Services. Under these arrangements the Council's Social Services Property Portfolio has transferred to the private or voluntary sectors that have then funded investment to improve existing facilities.

The Council recognises that demand for Adult Social Services will continue to increase. Therefore, we entered into an innovative partnership with the Joseph Rowntree Housing Trust, Hartlepool Primary Care Trust and North Tees and Hartlepool NHS Trust to develop a retirement village. The scheme will provide supported living for approximately 400 residents, which will provide people with a better quality of life and avoid more expensive residential placements. The £34m scheme will feature 240 apartments and bungalows that will be for rent, shared ownership and sale. The development will also include a Healthy Living suite, shop, activity room, hairdressing salon and lounges for residents. This first phase was opened in August, 2008 and construction of the final phase took place in March, 2009.

Environment – The Council has a key role in improving and maintaining the local environment to ensure the town is an attractive place to live, work and visit. The proposed improvements to schools, housing, transport and leisure will make a key contribution to improving the town's environment. The Council will also pursue other initiatives, such as securing grant funding to address land contamination issues and the provision of additional ongoing revenue funding to maintain coast protection structures and public access to the towns promenades and beaches. The new Comprehensive Area Assessment will consider use of 'natural' resources in more depth and we will be responding to this as part of our Climate Change Strategy.

Housing – The Council has facilitated the diversification of private sector housing within the town and addressed the demand for more 'executive' type housing. These developments are helping to stabilise the town's population and economic sustainability. The Council recognises that these benefits have not been shared by all of the town's residents and there are significant housing problems in relation to affordability and the limited ability of much of the older terraced housing to meet modern expectations. The Council is targeting its available housing resources to address these issues to ensure that intervention is effective in dealing with housing needs, poor housing conditions and the regeneration of deprived communities. This intervention will involve a package of measures including improvements of existing houses, the development of community/neighbourhood parks, the demolition of existing houses and the development of new private sector housing; where necessary the Council is using compulsory purchase powers in this regard. To achieve these objectives the Council is working with key partners, including Tees Valley Living, the other Tees Valley Authorities, the Regional Housing Board and the Homes and Communities Agency

The Council previously completed a detailed appraisal of the options for improving the Authority's own housing stock. As a result of this review the Council determined to transfer its housing stock in April, 2004 to Housing Hartlepool, a new Registered Social Landlord.

Housing Hartlepool is part way through a major capital investment programme, which will invest around £98 million to improve former Council houses to ensure the Government's decent home standards are achieved. The Council will continue to work closely with Housing Hartlepool to help regenerate communities and to ensure that intervention in specific neighbourhoods, where there is a mixture of private and Housing Hartlepool properties is co-ordinated.

The Council will also use its available land to help Registered Social Landlords and where appropriate private house builders undertake housing developments which addressed specific housing needs.

Transport – The Council submitted its second Local Transport Plan in 2006 and has recently completed and submitted its Progress Report. The Plan describes how it and its partners intend to build a high quality, integrated and safe transport system that supports Hartlepool's continued economic growth and regeneration over the next five years. During this period the Council will work in partnership with other organisations and agencies to deliver a wide range of local transport schemes and policy measures to address the identified problems. These improvements represent a step-change in the delivery of a long-term transport strategy that will contribute towards delivering the shared central-local government priorities and achieving the long-term vision for Hartlepool. In delivering our first LTP a wide range of schemes and initiatives have been delivered to achieve targets, contribute towards the aims and objectives and address the identified problems. These

successes have built a strong foundation on which the Council's new long term transport strategy and second LTP have been built.

The Council are currently in the process of developing a Highway Asset Management Plan (HAMP) which will set out how we will maintain the highway network to satisfy the demands placed on it. The plan will be used to develop long-term programmes of preventative maintenance and replacement and to determine the correct levels of budget required for each highway asset each year, ensuring that the network asset is maintained in the best condition that the available funding allows.

Leisure – The Council recognise that the provision of good quality, affordable and accessible leisure facilities has an important part to play in achieving a number of Community Strategy themes, including Culture and Leisure, Lifelong Learning and Skills and Health and Care. The town's main swimming pool is nearing the end of its operational life. The Council has previously set aside £3m towards the development of an "H2O centre, within the Victoria Harbour development and has been exploring options for working with private developers to take this project forward. Owing to the impact of the recession this development is not expected to be feasible in the medium term. Therefore, the Council has re-allocated this allocation to support investment in the Mill House Leisure Centre and is exploring options for the development of this site with partners, including Hartlepool United Football Club.

Jobs and the Economy – Hartlepool's largest ever physical regeneration project is the remodelling of Victoria Harbour, a 133 ha dockland site. The Council is working with the landowners, PD Ports and with Tees Valley Regeneration, the Homes and Communities Agency and One North East to bring forward proposals for a mixed use development, including 57,000 sq. m. office/industrial floor space, 3,500 dwellings, shops, leisure and community facilities, expected to extend over the next 20 years. The proposals, which have been granted outline planning permission subject to a legal agreement, include private and rented housing, primary school and a pedestrian/cycle bridge over the harbour entrance linking the site to the Headland.

The Council works with the local voluntary and community sector and local businesses to promote the local economy and we are currently combining with the North East Chamber of Commerce on a "Buy local Campaign".

The Council also continued to develop its business incubation and support system, including addressing premises needs for small businesses. Investment in previous years in enhancing the Council's Hartlepool Enterprise Centre and supporting UK Steel Enterprise in developing the Innovation Centre at Queens Meadow has seen both of these centres fully occupied and with waiting lists. The Council is now working with UKSE to secure Single Programme funding for an expansion of the Innovation Centre. Improvements to existing business premises in the Central Area and Longhill have been supported by grant aid funded by a continuation of New Deal for Communities grant and the Council's own capital programme. More generally the Council is providing match funding from its own resources where necessary to lower external funding for further regeneration projects at Victoria Harbour, the Central Area, the Southern Business Zone and Seaton Carew.

Transformational Services and New Ways of Working – We understand the national and local context of efficient integrated and shared service provision across the public sector and increased neighbourhood working. We are transforming our own services to provide an effective and efficient framework to meet these demands. The Council is committed to improving customer services and has invested resources to develop a corporate contact centre. The Council has invested in mobile technology to enable services to be delivered in people's own homes or other locations away from the main administrative offices. The Council has invested in a new Financial Management System which has enabled ongoing revenue efficiencies to be achieved through invoice centralisation and facilitated the introduction of revised procurement arrangements, which have also achieved ongoing revenue efficiencies. The Council is also investing in a new HR/Payroll system and is working in partnership with another Council to maximise the benefits of this investment. The Council recognises that further investment will be needed over the next two years to achieve further efficiencies from Business Process Re-engineering and a Business Transformation Programme.

Property Portfolio – The Council has produced a “vision” for future accommodation requirements taking into account new ways of working and this forms part of the Asset Management Plan and Business Transformation Programme. These initiatives aim to rationalise and reduce the number and cost of administrative buildings, to generate capital receipts from the sale of surplus assets and to develop an invest-to save programme for energy efficiency projects.

The Council is developing a “working from home” strategy which will be a further driver to rationalise office accommodation and achieve efficiencies.

This approach links into our maintenance strategy and the Council has allocated £3.7m to address backlog of repairs and maintenance within the Civic Centre funded from prudential borrowing. A further £1.2m has been provided within the 2009/2010 budget to address a range of property related health and safety issues and property improvements. Detailed proposals for allocating these resources will be developed in 2009/2010 to address these issues and the requirements identified through the asset management plan.

Strategic Land and Property Acquisitions – In response to the credit crunch and economic downturn the Council has approved the principle of strategic land and property acquisitions during the recession. The strategy will require a multi agency approach with the Council's partners to ensure an appropriate strategy is in place for developing such land and property. The aim of this strategy will be to release future benefits for the community when the economy recovers from the current recession, which may include the availability of land for social or private housing and/or the generation of resources for capital investment from future increases in land values.

The Council is in the unique position of being able to facilitate this strategy by using its Prudential Borrowing powers to provide bridging funding for such developments, subject a detailed business case being prepared for each proposal and revenue affordability. The latter factor benefits from the current historically low interest rates. The Council is exploring a range of potential developments and detailed business cases will be referred to Cabinet and Council if this initial work confirms these potential developments are viable.

The Council's Approach to Funding Capital Investment

The Council will fund its capital investment from a variety of sources.

The availability of funding from these different sources has a major impact on which projects are implemented as a very large proportion of funding is provided for specific schemes. In the majority of cases these resources fund projects which are high Council priorities. However, this means that local projects are given a lower priority as funding is not available for such items, although innovative approaches are used e.g. £156,000 is allocated to Neighbourhood Forums each year to address local priorities and £150,000 for Community Safety Initiatives. These allocations have now been confirmed for the three years 2009/2010 to 2011/2012

External Grants and Contributions – a significant number of capital projects are financed from external grants and contributions which are provided for the specific project and cannot be used for other purposes. For example, grants from Central Government, National Lottery funds and the European Union.

This is a valuable source of funding and has enabled the Council to undertake a number of developments that would not otherwise have been progressed. Carnegie Building – the revitalisation of a former library. Grayfields Sports Pavilion – new build facilities. Brougham Enterprise Centre – accommodation for small businesses. Coast protection Works – via DEFRA funding. Upgrading of 8/9 Church Street via Home Office Funding. The Council has previously been very active in pursuing such funding. However, given the increasing pressure on the revenue budget the Council is becoming more selective in the capital grant regimes it pursues. This will ensure developments are affordable in the medium term and make a specific contribution to the achievement of the Community Strategy themes.

Borrowing – a large proportion of the Council's capital investment is funded from Government supported borrowing. This funding is provided by Government departments on the basis of services bids submitted by the Council, for example Housing Bids, Local Transport Plan and Education Asset Management Plan. Where a Government department agree to provide supported borrowing for the Council's bid this will usually be provided as a Single Capital Pot allocation. In theory the Council is free to use this allocation to support its own priorities. However, the individual Government departments expect the Council to achieve relevant targets and priorities for which the resources are provided. Therefore, it is the Council's practice to passport these resources to meet the needs identified in the relevant service bids and to hopefully ensure future bids are successful.

The Council can also take on unsupported borrowing, that is borrowing which does not attract Government support. This borrowing needs to be prudent and affordable as the repayment costs must be funded from the Council's revenue budget. This freedom gives the Council an opportunity to use borrowing to fund local priorities which are not eligible for national support. The Council has taken a prudent approach to using this freedom.

A business case approach for each proposal to use this source of funding has been adopted. This source of funding has therefore been restricted to fund investments which will either: -

- lever in significant external grant funding, for example the development of Grayfields sports facility and redevelopment of Headland Town Square; or
- produce a revenue saving greater than the loan repayment costs, for example investment in IT, or the scheme to improve Public Conveniences across the town, which will be funded from the existing revenue budget for this service by rationalising operational arrangements; or

- address a backlog of repairs and maintenance, for example, this over a three year period to 2009/2010 funding has been provided for repairs to the Civic Centre. In the 2009/2010 budget a provision of £1.2m has been provided to address a range of property related health and safety issues and property improvements ; or
- address minor local priorities which address Community Strategy themes and could not otherwise be funded, for example, Community Safety initiatives and Disabled Access adaptations; or
- enable the Council to address a particular policy priority, for example the extension of recycling initiatives through the implementation of new refuse collection arrangements.

The Council also determined to use of unsupported borrowing to address priorities which cannot be funded from other sources, or where existing funding allocations are insufficient to meet local needs. Annual provisions have been made within the Council's Medium Term Financial Strategy to meet the resulting repayment costs associated with this unsupported borrowing. This will provide annual capital allocations of £1.2m for the three years 2009/2010 to 2011/2012 and proposals for using these resources will be recommended by the Council's Strategic Capital Resources and Asset Programme Team (SCRAPT) on the basis of robust project appraisal procedures. The continuation of this policy until at least 2011/2012 will mean that a total of £6m has been invested in this way since this initiative started in 2006/2007. Council will consider whether this programme continues beyond 2011/2012 when the Medium Term Financial Strategy is rolled forward. Projects which have been funded from this resource include building asset, Coast Protection works, Highways maintenance schemes, Disabled Facilities grants, Economic Development schemes and Regeneration match funding.

Leasing Arrangements

The Council continues, where appropriate, to use leasing arrangements to acquire vehicles and equipment for the provision of key services such as refuse collection and grounds maintenance. The decision to use leasing arrangements is based on a detailed financial appraisal to determine the most cost effective option for financing the replacement of operational equipment. The Council uses an external consultant to assist with this financial evaluation and to provide market intelligence on available leasing options.

Capital Receipts and Revenue Funding Sources – The Council now has limited surplus assets which can be disposed of. Therefore, this source of funding is limited. In some instances it may be more beneficial for the Council to use its land as the Council's contribution to developments with Housing Association where this levers in significant housing investment from other sources. The Council will therefore consider each disposal on a case by case basis to maximise contribution to the Council's overall objectives.

Future capital receipts will be dependent upon the rationalisation of the Council's property portfolio. This area is being pursued as part of the Council's Business Transformation Programme. It is planned to rationalise the use of assets and reduce the number of administrative buildings used and owned by the Council.

The Council undertook a study into the potential latent value of its property in 2004. This was undertaken by Consultant DTZ. One of The Council's remaining valuable assets is its minority interest in the Shopping Centre, which currently provides a significant income stream for the Council. The Council has considered disposing of this interest; however, the capital receipt would not be sufficient to replace the existing income stream. The recession has also reduced capacity within the private sector to buy such assets. Therefore, it is not

currently in the Council's interest to pursue this option. A similar exercise was previously undertaken on the Council's interest in the Victoria Park Football Ground with a similar result, but current potential development of the Mill House site in conjunction with the Football Club could lead to a sale of the ground.

It is anticipated that £1.5m of capital receipts will be achieved in 2008/2009 as the Council continues to drive out efficiencies in its land and property holdings.

The Council has determined that capital receipts from the sale of income generating assets should in the first instance be earmarked to either replace the assets, or to repay debt, to ensure the sale does not have an adverse impact on the revenue budget. In accordance with this policy any uncommitted capital receipts will be available to support new capital investment.

The Council can also use revenue resources to fund capital projects e.g. use of car parking income. However, as revenue budgets are under increasing pressure the Council's ability to make revenue contributions to capital is restricted. There are no proposals to make significant revenue contributions in the corporate budget strategy, although individual service departments may make small contribution for specific priorities.

"The Future of Transport" White Paper (July 2004) sets out the Government's intention to establish a Transport Innovation Fund (TIF) to give incentives to develop and deploy smarter, innovative, local and regional transport strategies. The fund will support the costs of smarter, innovative local transport packages that combine demand management measures such as road pricing with modal shift and better bus services. It will also support innovative mechanisms which raise new funds locally and the funding of regional and local schemes that are beneficial to national productivity. The paper sets out the approach to taking forward the first of the objectives, including the criteria intended to be used to provide pump-priming funding in support of scheme development. The Council are working with their partners in the Tees Valley region, through the Joint Strategy Unit, towards developing a bid for this funding.

As part of the Medium Term Financial Strategy for 2008/2009 to 2011/2012 the Council determined to make provision within the revenue budget for unsupported borrowing of £3.6m to address local priorities over this period. Proposals for using these resources are recommended by the Council's SCRAPT team on the basis of robust project appraisal procedures. The Council will consider whether this programme continues beyond 2011/2012 when the Medium Term Financial Strategy is rolled forward.

Other Sources of Capital Funding – The Council recognises that the above sources of funding are not suitable for all capital projects. Therefore, the Council will continue to examine the potential for resolving the shortfall in available capital funding through the use of alternative funding sources. Initiatives already taken include the transfer of the Council's housing stock to a registered social landlord and outsourcing of services to enable the private sector to fund capital investment.

The Council has worked in partnership with the Hartlepool Primary Care Trust on the relocation of Health and Social Services into accommodation to be provided under the NHS LIFT partnership and works have now begun on site. In relation to Housing the Council will continue to work with a range of partners, including English Partnerships, Housing Associations and the private sector to secure affordable housing and to tackle housing market failure.

The Framework for Managing and Monitoring the Capital Programme

Project Prioritisation and Option Appraisals

It is inevitable that demands for capital investment will exceed resources available to the Council. It is therefore essential that the Council has robust criteria for allocating resources. These procedures need to reflect the Council's overall priorities, recognise the requirements of external funders and maximise the sustainability of Government funding allocated through the Single Capital Pot. The Council has determined that the best way to achieve these objectives is to passport Single Capital Pot resources to meet the relevant service bids. The downside to this policy is that it reduces the resources which the Council can allocate to its own local priorities. However, the policy does ensure resources are targeted at issues which have a high priority to both the Government and the Council. The policy also maximises the resources which the Council will secure for future capital investment.

In practice, the above policy and the limited level of capital receipts and revenue contributions to capital, means the Council has limited uncommitted resources. Therefore, existing project prioritisation and option appraisal arrangements concentrate on the revenue implications of proposed capital projects.

The Council, like most local authorities, faces a challenging revenue budget position in the next few years as the Council will need to achieve annual efficiencies of 3% and address increasing demands on services. The Council's Cabinet has therefore implemented procedures for evaluating potential capital bids which include the establishment of the lifetime revenue implication of capital projects.

As part of the procedures projects will only be approved if it can be demonstrated that these costs can be funded, either:

- from savings which will arise from the investment; or
- the sponsoring department can identify alternative revenue savings/income, which do not have an adverse impact on the delivery of the Council's corporate priorities; or
- the Council's Cabinet determine to identify corporate savings as part of the overall revenue budget process.

Managing the Capital Programme

The Council will continue to maintain robust and comprehensive procedures to ensure the delivery of capital projects on time and to budget. These procedures are particularly critical given the dependency of the Capital Programme on external grants as the Council needs to ensure grant conditions are met. Regular capital monitoring reports are considered by the Corporate Management Team and Cabinet. The Council's Strategic Capital Resources and Asset Programme Team will co-ordinate the development of the Capital Programme.

Grant funded schemes, such as the New Deal for Communities Programme, are subject to the funders Specific Performance Monitoring regimes. In most cases these monitoring arrangements review progress on a quarterly and annual basis against agreed financial and non financial targets. Failure to delivery against these targets can result in the loss of future grant allocations, or in extreme cases the claw back of monies already provided. The Council has an excellent track record of delivering against these milestones.

Procurement

The Council has strengthened its approach to procurement over recent years by the formation of a Corporate Procurement Team to coordinate activity and to develop a procurement strategy in line with local regional and national strategies. The Council's Contract Procedure Rules have been amended to reflect a variety of options such as best price and quality/price tenders in addition to partnering arrangements. This allows capital projects to be delivered on a flexible manner to meet individual requirements.

The Council is an active participant in the Regional Improvement and Efficiency Partnership and its procurement projects e.g. the production of a collaborative sourcing strategy and harmonised contract documents. Sub regionally collaboration between the Tees Valley Authorities has increased in the sharing of the commission role for procurement exercises to achieve efficiencies e.g. Waste Management initiatives, potential for shared service provision, commodities etc. We are also part of a purchasing consortium (NEPO) across all North East Councils where our flexible energy purchase arrangement has proved successful.

We have a strategic partnership in place to deliver corporate projects (including LEA funded schoolwork) up to a value of £100k. This commenced in 2002 and has proven successful in speedy delivery of schemes. It was renewed in 2005 and is currently under review.

Significant savings have been realised by the procurement of Home to School transport and ancillary services.

The further development of a "Centre of Excellence" for procurement will take place within the Council's Business Transformation Programme.

Capital Spending Proposals

The Council's Capital Programme for the three years 2009/2010 to 2011/2012 was approved in February, 2009 having gone through Scrutiny, Cabinet and Council via the budget process. Over this period the Council will invest over £83.1m, which includes Building Schools for the future investment in 2010/2011 and 2011/2012. A breakdown of the 2009/2010 Capital Programme is detailed below:

	<u>£'000</u>
Children's Services – Education	8,905
Local Transport Plan	1,871
Housing	4,523
New Deal for Communities	800
Asset Management	2,400
Other	3,695
	<u>22,194</u>

Links to Partners

The Council has a strong track record of partnership working to maximise the impact of the Council's own capital resources and the investment undertaken by partners. Recent examples of partnership working include:

- the Council is working in partnership with Hartlepool New Deal for Communities (NDC) on a range of regeneration projects within the NDC area. One of the key projects is the Housing Renewal programme, which aims to tackle significant housing market failures and associated social problems. Over the 10 year life on Hartlepool NDC the Council will contribute £7.5m towards this initiative;
- the creation of a Church of England School in conjunction with Durham diocese to replace one of the town's six secondary schools;
- partnership between the Council, the Governors of another secondary school, the Sports Lottery and SRB to establish a specialist sports college;
- Partnership between the Council and the Governors of the towns secondary schools on the development of the Building Schools for the Future programme;
- Partnership between the Council and the Governors of the town's primary schools on the development of the Primary Capital Programme;
- Working with the PCT, Housing Associations and other organisations in delivering supported housing;
- Working with Hartlepool People in the Community Asset Transfer and development of a key building providing services to the local community;
- Working with the Headland Development Trust to develop the St Hild's New Life Centre for Performing Arts.

As part of the Local Strategic Partnership the Council will continue to be involved in partnership projects across a range of service areas directly linked to the achievement of our corporate priorities, including:

Health – The Council worked with Hartlepool Primary Care Trust to develop new facilities which incorporate Health and Social Care services on the same site. The main project is the development of a new Health and Care Centre in the town centre. The Council was heavily involved in site assembly and has now sold the site to LIFT. Works on the development of this facility have now commenced.

Education – The Council will continue to work with Secondary Headteachers, Governing Bodies, parents and other Education stakeholders to ensure the development vision for the Secondary Schools estate is delivered through the Building Schools for the Future Programme. There will be a similar collaborative approach for the redevelopment of Primary Schools.

Transport – The Council will continue to work in partnership with the other four Tees Valley authorities on the development of a sustainable transport strategy for the Tees Valley. This includes an “in principal” commitment to the development of a Tees Valley Metro system. At a local level the Council's own Local Transport Plan will continue to be developed in consultation with the appropriate transport bodies. The Tees Valley Authorities have submitted a combined bid to DFT for a major bus corridor network, which will include “super core” and “Core” routing.

Feedback to date has been positive and an announcement is expected April, 2009.

The bid will promote synergy of transportation needs capital expenditure and control mechanisms.

Housing – The Council is no longer a direct provider of rented housing. However, the Council still has strategic housing responsibilities and will work in partnership with others to ensure everyone has access to good quality and affordable housing. Over the next few years the major housing issue facing the Council is to address housing market failure within the traditional town centre terraced market. To address these issues the Council will continue to work in partnership with a range of public sector organisations, including the New Deal for Communities partnership, the Homes and Communities Agency (HCA), Housing Hartlepool and other registered social landlords, as well as private sector developers. This broad coalition will seek to regenerate these areas through a combination of refurbishing and demolishing existing houses, the development of new housing by the private sector and the development of new public open spaces.

As indicated previously, the Council will also continue to use its limited land resources as part of its ongoing liaison with the HCA, RSLs and private house builders to address affordability issues.

Community Safety – The council works in partnership with Cleveland Police and other members of the Safer Hartlepool Partnership in the delivery of the town's crime, disorder and substance misuse strategy 2008 -2011. Over the next 3 years the council will provide a further £0.45m of capital funding for community safety initiatives which contribute to the delivery of this strategy and its annual priorities.

Links to Other Strategies and Plans

The Council is a key member of Hartlepool Partnership and we have adopted the Partnership's long-term vision for Hartlepool as expressed in the Community Strategy. The Council's Corporate Plan sets out how the Authority intends to deliver its part of this strategy. The Corporate Plan provides the overall focus for the Council's activities and is supported by a variety of service specific plans, including the Capital Strategy and Asset Management Plan.

Performance Measurement and Innovation

As recommended by the ODPM the property performance indicators published by the COPROP Performance Management Initiative will now be used in preference to the former ODPM Indicators as it is recognised that these definitions will improve reliability of data and the validity of inter-authority comparisons through the Institute of Public Finance Asset Management Network

Property Performance is reported to the Finance and Efficiency Portfolio Holder annually and reported quarterly as a requirement of Corporate and Departmental Service Plans.

Egan Report – Rethinking Construction

The Council has successfully implemented the Principles of Egan's "Rethinking Construction" by building "quality" into tender consideration. More significantly the extensive use of partnering arrangements to deliver key projects is well embedded in the procurement approach of the Council. There is also a strategic partnering arrangement in place for the provision of maintenance and other works up to a value of £100k. The partners include 2 private sector contractors and the Council's in-house team. Benefits include value engineering gained from early involvement of contractors e.g. Carlton

Outdoor Centre and LEA Condition Works, Planned Maintenance Works and Minor Building Works and the realisation of savings being re-invested in projects.

Disposal Strategy

As indicated earlier, the Council has previously generated significant capital resources from the sale of land and buildings. These resources have been used to fund new capital projects and to provide building land for private sector development. Over the past five years the Council generated usable capital receipts of £12.1m. However, owing to the success of previous capital receipt programmes, the Council has limited potential to generate capital receipts. The remaining disposals will be difficult to achieve and will therefore not be included in the Council's Capital Programme until the receipts are certain to be received. This prudent approach will ensure the Council does not over commit itself.

To encourage service departments to manage their land and property assets effectively, they are entitled to retain 25% of the capital receipt generated from the sale of operational assets. This money can then be invested in their remaining property assets. The remaining 75% is allocated on a corporate basis.

Efficiency Strategy

Asset Management is an important strand of the Council's Efficiency Strategy and Business Transformation Programme. The key ingredients will be: -

- Development of the accommodation strategy;
- Rationalisation of property;
- Minimising running costs e.g. energy efficiency;
- Improving procurement arrangements e.g. vehicles;
- Addressing environmental issues and climate change e.g. green energy.

Summary

The Council will continue to prioritise its capital resources in line with its corporate objectives and seek additional funding sources to achieve these objectives. It is recognised that bids for external funding need to be closely aligned to these objectives and take account of "full life cost" implications.

It is also recognised that the continued regeneration and revitalisation of Hartlepool will only be achieved through existing and new partnerships with other public sector organisations and the private and voluntary sectors. The Council has a good track record in working with such bodies and has already achieved significant improvements. These developments will continue to be a major influence in the coming years including the development of the retirement village and the major regeneration opportunity provided by Victoria Harbour.

It is envisaged that the Council will need to provide greater community leadership in the coming years to address the impacts of the recession. This may need to include greater involvement in the development of the town as the private sector is unlikely to be able to fulfil this role in the short to medium term. The Council is currently assessing a range of potential interventions, which will involve working with partners and the development of detailed business cases.

The Council will review its capital expenditure plans on a regular basis to reflect changing circumstances, including:

- The results of Service Reviews and Inspections (including service specific inspections and the Comprehensive Performance Assessment);
- The level and type of Central Government support for the Council's capital investment;
- Pressures and priorities set out in the Council's Medium Term Budget Strategy (including the level of Council Tax increases).

The Capital Strategy is supported by the Asset Management Plan, which is the mechanism by which the Council delivers its Capital Strategy.

SECTION 8 – TREASURY MANAGEMENT

Purpose of this Section

This section provides an overview of our Treasury Management Strategy covering the outlook for interest rates, borrowing strategy and investment strategy. This area has always been a priority for the Council and the profile of this area has been raised at a national level owing to the impact of the credit crunch.

The Treasury Management Strategy provides a framework for managing the Council's investments and borrowings. The management of investments is governed by the Local Government Act 2003, guidance issues by the Department for Communities and Local Government (DCLG) and the Chartered Institute of Public Finance and Accounting (CIPFA) Treasury Management Code of Practice (the Code).

The overall objective of the Treasury Management Strategy is the security of the Council's cash resources and then the minimisation of cost and management of risk.

During the current year the Council has been able to repay debt by reducing its investments. This action has been taken to mitigate exposure to investment counterparty risk, which is endemic in the current economic climate. This action has also produced a revenue saving of £0.3m which has been reflected in the financial plans for 2009/2010.

The Council will need to replenish this borrowing in the future and because of the significant reduction in interest for loans up to 30 years it will be possible to obtain new loans at rates lower than the 4.05% previously paid.

The following paragraphs provide the detailed strategy.

Outlook for Interest Rates

The UK economy has entered a profound recession, worsened by a dangerous combination of negative growth and dysfunction in the financial markets. The situation in the economy is considered critical by policy setters and there is concern that matters could be further worsened by a collapse in consumer confidence. At best this could deliver a short, sharp downturn, at worst a prolonged Japanese-style recession.

The global 'credit crunch' has resulted from an unwillingness of banks to lend to each other, underpinned by a significant loss of confidence. There has been a paradigm shift in the modus operandi with unprecedented events occurring regularly in the rapidly changing economic landscape. Key events include:

- The collapse of Lehman Brothers, Fannie Mae and nationalisation of Bradford and Bingley in September;
- The Irish Government guarantee of investments with the top 6 Irish banks and building societies;
- The announcement by the US Government in late September of a \$700bn rescue deal, originally involving the US Government taking over bad debt but now changed to a plan of part nationalisation of the banks capital.;

- Failure of three Icelandic banks in October with all deposits being 'frozen', including over £1bn owing to public bodies such as councils, universities and the Audit Commission;
- Announcement in October by the UK Government of a £500bn rescue package for UK banks and building societies involving the partial nationalisation of eight of the UK's largest banks and building societies the provision of short term loans and loan guarantees to encourage the banks to lend to each other;
- A series of dramatic interest rate reductions resulting in the lowest post war bank rate of 0.5%. There has also been internationally co-ordinated interest rate reductions;
- The Government's Pre-Budget Report contained a significant fiscal stimulus of £20bn, which will result in Government borrowing being increased to an unprecedented level in an attempt to stimulate the economy and mitigate the scale of potential recession.

The Government also announced another major bank rescue package, the key points of which are:

- Banks will be able to take up government insurance against their expected bad debts;
- The Bank of England will be able to buy up to £50bn worth of stakes in companies in all sectors of the economy;
- Northern Rock has been instructed to begin lending again;
- The Government is increasing its stake in RBS to nearly 70% from 58%. RBS also said it was set to report a huge loss for 2008, with asset write-downs of up to £28bn.

In addition to the credit crunch, the overall economic outlook is bleak. As part of the Pre Budget Report, the Government has revised its growth forecasts from 2.5% in March to between minus 0.75% and plus 1.25%. Public spending growth has been reduced from 1.8% to 1.2%. The economy is expected to move into serious recession in 2009. Inflation concerns have now eased significantly and there is even a risk of 'deflation'.

Against this background it is anticipated that interest rates will remain at significantly lower levels than anticipated twelve months ago. The table below details the latest interest forecast provided by the Council's Treasury Advisors, Butlers.

Interest Rate Forecasts – 2007-2010

Year	End Period	Money Rates				PWL B Rates*		
		Bank Rate	3mth	6mth	12-mth	5 yr	20 yr	50 yr
2007	Dec	5.50	6.0	5.9	5.6	4.6	4.6	4.4
2008	Mar	5.25	6.0	6.0	5.8	4.1	4.7	4.4
	Jun	5.00	6.0	6.2	6.5	5.3	5.1	4.6
	Sep	5.00	6.3	6.4	6.5	4.4	4.8	4.6
	Dec	2.00	3.0	3.2	3.3	3.0	4.2	4.0
2009	Mar	1.00	2.0	2.2	2.4	2.7	4.1	3.8
	Jun	0.50/75	1.5	1.6	1.8	2.2	3.9	3.7
	Sep	0.50/75	1.5	1.6	1.7	2.2	3.8	3.7
	Dec	1.00	1.6	1.7	1.8	2.5	3.9	3.8
2010	Mar	1.25	1.7	1.9	2.0	2.6	3.9	4.1

* Borrowing Rates

Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	1.0	1.6	1.8	2.1	3.9	3.8
2010/11	1.7	2.1	2.8	3.2	4.1	4.0
2011/12	2.4	2.8	3.6	4.0	4.3	4.1

- **Borrowing Rates**

As can be seen from the tables above, the Bank Rate and short term LIBOR are expected to remain low. Despite attempts of the government to inject liquidity into the banking system the margin of the inter bank lending rate and the official bank rate remains higher than would otherwise be expected. The table above includes an assumption that as sentiment in the financial sector improves gradually, the differential between the Bank of England Base Rate and LIBOR will narrow over the forecast period.

Longer term borrowing rates are expected to ease a little in the short term before returning to a trend of increasing beyond 2010. The increase will be higher as a result of the scale of Government borrowing. However, this may be reversed given the impact in the short to medium term of “quantitative easing”.

As a result of the economic conditions described above, the Council will receive lower investment returns in the future. The Council is partially protected from this reduction in interest rates in the current year, because of the fixed deposits taken out before the drastic reduction to interest rates. However, as these deposits mature, the rates available for new investments will be much lower. At the same time the level of investments will also reduce as resources are used to support the revenue budget, Job Evaluation and Building Schools for the Future.

Fortunately the Council does not budget for the whole of this investment income in the base budget. However, the loss of this income will significantly reduce the Councils flexibility and its ability to manage in year budget pressures. It is estimated that the reduction in investment returns will be £1m.

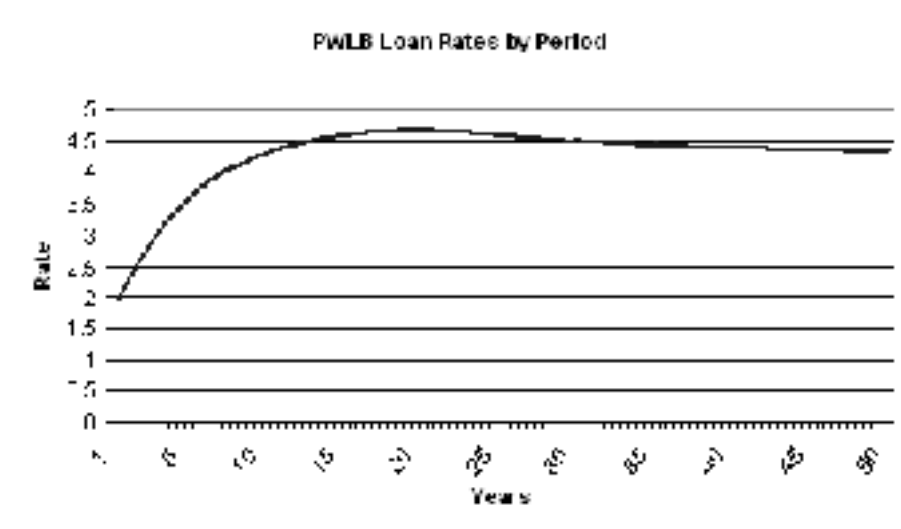
BORROWING STRATEGY

The Council gross borrowing was £69.3m at the start of 2008/2009. This level of long term borrowing is marginally lower than the Capital Finance Requirement (CFR). As the temporary borrowing is repaid as investments mature, the level of gross debt will fall by a further £15m. This will be achieved by internalising the Council's borrowings and temporarily using reserves to avoid external borrowing. The prime objective has been to protect the Council from the potential financial loss, which is an inevitable, albeit to varying degrees, risk when depositing investment funds with counterparties. The failure of various major banks and the £1 billion potential losses incurred by public bodies that had deposited investment funds with the Icelandic banks has demonstrated how real a risk this is. A risk that unnecessary in the medium term, given the Council's reserves and general fund balances which can be used to temporarily fund the Councils borrowing requirement, as represented by the CFR.

The current low levels available for new long term borrowing provide opportunities for locking into very attractive rates to fund the future capital expenditure. However, the benefit of locking into these low rates has to be weighed against the risk of being able to temporarily deposit the cash securely and at the appropriate interest rate. It is recommended that further long term borrowing is to be reconsidered if circumstances improve. In particular, if opportunities arise, which give greater assurance over the security of funds temporarily invested until used for capital purposes. There is also a risk that interest rates may fall further. The marginal rate of borrowing needs to be lower than the marginal rate of investment before any new borrowing is taken.

If circumstances change and new borrowing is required, the Chief Financial Officer, under delegated powers, will take the most appropriate form of borrowing in terms of whether market (LOBO) or PWLB, depending on the prevailing interest rates at the time. Borrowing may also be considered to fund capital expenditure in advance of future year's requirements.

Because of the changing shape of the yield curve, as shown in the graph below, shorter period PWLB loans are now at lower rates of interest than longer period loans. The Chief Financial Officer will continue to monitor opportunities for achieving savings from repayments of debt and debt rescheduling. There is a possibility that the LOBO will be recalled on 28th March, 2010. If this occurs the Chief Financial Officer may consider opportunities for replacing the loan with a new shorter period loan at a lower rate of interest.



CLG Regulations have been issued which require the Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. A variety of options are provided to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

- For capital expenditure incurred before 1st April, 2008 and future Supported capital Expenditure, the MRP policy will be to continue with existing practice as set out in former CLG Regulations;
- From 1st April, 2008 for all unsupported borrowing the MRP policy will be based on Asset Life.

INVESTMENT STRATEGY

The regulations and the code require authorities to consider the following criteria when managing investments.

- Security of the cash investment;
- Liquidity; and
- Return on Investment;
- any national guarantees/undertakings.

The Council takes a prudent approach to managing its investments. The Council's policy on Credit and Counterparty Risk Management is set out in Appendix 9. Institutions have only been included on the approved investment list after careful assessment. The criteria determining whether a counterparty is eligible for inclusion on the lending list is based on:

- credit ratings - for banks and building societies these are used in the first instance to determine whether the a counterparty is eligible for further consideration;
- a consideration of the underlying assets for building societies;
- the country the institution is registered in.

On the basis of these criteria, the Council's current lending list only includes:

- **Banks** – the Council will use UK and Irish banks which have at least the following Fitch (or Moody's and Standard and Poors equivalent) ratings (where rated):
 - Short Term – F1
 - Long Term – A-
 - Individual / Financial Strength – C (Fitch / Moody's only)
 - Support – 3 (Fitch only)
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies** – the Council will invest with where they have asset base of £1bn or more or where Societies meet the ratings for banks outlined above.
- **Local Authorities**, Parish Authorities, etc.
- **Debt Management Office** – this is a UK Government Agency which manages debt on behalf of the Government.

The above criteria only includes UK and Irish institutions and therefore has never included Icelandic banks, owing to the risk that if these banks ran into financial difficulties the Icelandic Government may not have been able to underwrite depositors funds.

The Council has also agreed to establish a "Pooled Investment Fund" with Cleveland Fire Authority. This arrangement will manage the two organisation's investments as a single pool which will reduce investment risk. The "Pooled Investment Fund" will be governed by the criteria detailed in the previous paragraphs. A specific legal agreement has also been drawn up for the "Pooled Investment Fund".

Prudential Indicators

Our Treasury Management Strategy is supported by a number of Prudential Indicators which set limits for various aspects of Treasury Management. The detailed indicators are shown in Appendix 10.

APPENDICES

1. The 2008 Community Strategy Themes, Priority Aims and Links to Government Public Service Agreement Priorities.
2. Area Based Grant Allocation 2009/2010 and 2010/2011.
3. Overview of Service and Financial Planning Process.
4. Budget Timetable.
5. Summary of 2008/2009 Emerging trends included as Budget Pressure from 2009/2010.
6. Summary of Approved 2009/2010 Budget and Budget Forecasts 2010/2011 to 2012/2013.
7. Summary of 2009/2010 Council Tax by Band.
8. Extract from Council's Constitution – Part 4 Financial Procedure Reviews
9. Credit and Counterparty Risk Management
10. Prudential Indicators and Treasury Limits for 2009/2010 to 2010/2011

The 2008 Community Strategy Themes, Priority Aims and Links to Government Public Service Agreement Priorities

Theme	Priority Aim	Government PSA Priorities
1 Jobs and the Economy	Develop a more enterprising, vigorous and diverse local economy that will attract new investment, enable local enterprises and entrepreneurs to be globally competitive and create more employment opportunities for local people.	1. Raise the productivity of the UK economy 2. Improve the skills of the population, on the way to ensuring a world-class skills base by 2020 6. Deliver the conditions for business success in the UK 7. Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions 8. Maximise employment opportunity for all
2 Lifelong Learning and Skills	All children, young people, individuals, groups and organisations are enabled to achieve their full potential through equal access to the highest quality education, lifelong learning and training opportunities.	10. Raise the educational achievement of all children and young people 11. Narrow the gap in educational achievement between children from low income and disadvantaged backgrounds and their peers 14. Increase the number of children and young people on the path to success 16. Increase the proportion of socially excluded adults in settled accommodation and employment, education or training
3 Health and Well-being	Work in partnership with the people of Hartlepool to promote and ensure the best possible health and well-being.	9. Halve the number of children in poverty by 2010-11. on the way to eradicating child poverty by 2020 12. Improve the health and well-being of children and young people 17. Tackle poverty and promote greater independence and well-being in later life 18. Promote better health and well-being for all 19. Ensure better care for all 25. Reduce the harm caused by Alcohol and Drugs
4 Community Safety	Make Hartlepool a safer place by reducing crime and anti-social behaviour, and tackling drugs and alcohol misuse.	13. Improve children and young people's safety 23. Make communities safer
5 Environment	Secure and enhance an attractive and sustainable environment that is clean, green, safe and valued by the community.	5. Deliver reliable and efficient transport networks that support economic growth 27. Lead the global effort to avoid dangerous climate change 28. Secure a healthy natural environment for today and the future
6 Housing	Ensure that there is access to good quality and affordable housing in sustainable neighbourhoods and communities where people want to live	20. Increase long term housing supply and affordability
7 Culture and Leisure	Create a cultural identity for Hartlepool which attracts people to Hartlepool and makes us proud to live and work here.	22. Get more children and young people taking part in high quality PE and sport
8 Strengthening Communities	Empower individuals, groups and communities, and increase the involvement of citizens in all decisions that affect their lives.	15. Address the disadvantage that individuals experience because of their gender, race, disability, age, sexual orientation, religion or belief 21. Build more cohesive, empowered and active communities

Area Based Grant Allocations 2009/10 and 2010/11

TABLE 1 - AREA BASED GRANT ALLOCATIONS (NON WORKING NEIGHBOURHOOD FUND PROJECTS)

Project	2008/09 Base £'000	2009/10 Approved allocation £'000	2010/11 Proposed allocation £'000
Supporting People Administration	145	149	153
Preserved Rights	314	322	330
Supporting People Projects	0	30	60
Local Involvement Networks	99	99	99
Learning & Disability Development Fund (via PCT in 2007/8)	105	106	106
Adult Social Care Workforce (formerly HRDS and NTS)	281	260	273
Carers - 80% Adult	384	410	420
Mental Capacity Act and Independent Mental Capacity Advocate Service	52	66	63
Mental Health	336	344	352
Sustainable Travel General Duty	7	7	7
Teenage Pregnancy	144	144	144
14-19 Flexible Funding Pot	31	31	31
Child Death Review Processes	17	17	18
Children's Social Care Workforce (formerly HRDS and NTS)	42	42	41
Children's Fund	395	395	395
Choice Advisers	25	25	25
Education Health Partnerships	52	43	43
Secondary National Strategy - Behaviour and Attendance	68	68	68
Secondary National Strategy - Central Co-ordination	108	108	108
School Development Grant (Local Authority Element)	287	287	287
School Improvement Partners	42	42	42
School Intervention Grant	26	26	26
Primary National Strategy - Central Co-ordination	75	72	72
Carers - 20% Children	96	99	102
Care Matters White Paper	69	90	92
Connexions	1,114	1,142	1,171
Extended Rights to Free Transport	18	18	19
Extended Schools Start Up Costs	265	477	196
Positive Activities for Young People & Neighbourhood Support Fund	332	404	474
Child and Adolescent Mental Health Services	214	223	229
Child Trust Fund	1	2	2
Road Safety Grant	188	175	169
School Travel Advisers	35	35	35
Rural Bus Subsidy	29	30	31
Climate Change (Planning Policy Statement)	23	23	23
Stronger Safer Communities Fund - BSC, ASB & DPSG elements	182	182	182
Young People Substance Misuse Partnership	41	41	41
Cohesion	26	47	49
Stronger Safer Communities Fund - Neighbourhood Element	413	258	0
Resources allocated to support Council's core services	0	57	156
	6,081	6,395	6,133

TABLE 2 - WORKING NEIGHBOURHOOD FUND ALLOCATIONS (AREA BASED GRANT)

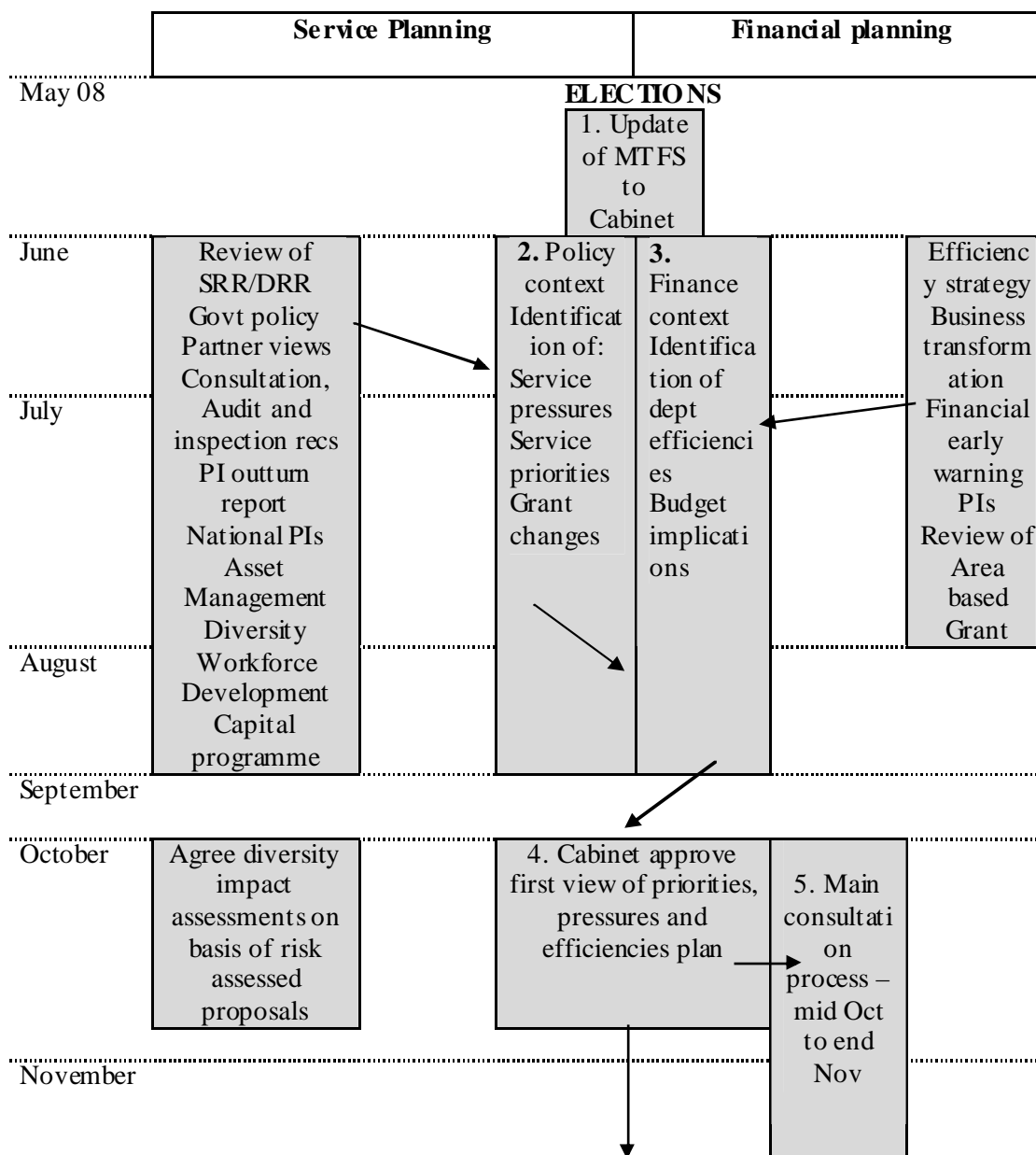
Project	2008/09 Base £'000	2009/10 Approved allocation £'000	2010/11 Proposed allocation £'000
Project	2008/09 Base £'000	2009/10 Approved allocation £'000	2010/11 Proposed allocation £'000
Skills to work - HBC	50	51	52
Economic impact evaluation of the Tall Ships	0	15	15
Belle Vue Sports	43	44	45
Exercise Referral - HBC	27	28	28
Connected Care - Manor Residents	24	25	25
Mobile Maintenance - HBC	21	46	47
Mental Health Dev. & NRF Support Network - Hartlepool MIND	89	91	93
Integrated Care Teams - PCT	40	20	0
Primary/Secondary Schools Direct Funding - HBC	400	410	420
Education Business Links - HBC	50	51	53
New Initiatives - HBC	40	41	42
Project Coordination - HBC	5	5	5
Hartlepool "On Track" Project - HBC	50	51	53
14-19 Reform Support	0	60	65
Environmental Enforcement Wardens	155	158	162
Environmental Action Team	100	103	105
Schools Environmental Action Officer	25	63	65
Women's Opportunities - HBC	72	74	76
Enhancing Employability - HBC	3	8	8
Homelessness Project - DISC	91	159	163
Carers into Training and Employment - Hartlepool Carers	45	46	48
Targeted Training - HBC	107	119	122
Jobs Build - HBC	29	80	82
Workroute ILM - HBC	204	239	245
Progression to Work - Assisting local people into work - HBC	249	276	283
Volunteering into Employment - HVDA	81	100	102
Community Employment Outreach - OFCA	92	109	112
Community Employment Outreach - Wharton Annex	50	51	52
Community Employment Outreach - West View Employment Action Centre	12	51	52
Job Club - Owton Manor West Neighbourhood Watch & Resident's Association	40	41	42
West View Project	36	37	38
Hartlepool Worksmart - Improving the Employment Offer - HBC	17	28	29
Incubation Systems and Business Skills Training - HBC/OFCA	233	274	281
Business & Tourism Marketing - HBC	10	20	21
Financial Inclusion - HBC	0	40	40
Local Employment Assistance - OFCA	46	47	48
Jobsmart - HBC	35	36	37
Youth into employment - Wharton Trust	39	39	40
Introduction to construction - Community Campus	16	16	17
Adventure traineeship - West View Project	39	40	41
Employment support - Hartlepool MIND	50	51	52
Support for existing businesses to expand (new projects to be sought)	0	57	120
Active Skills - West View Project	26	26	27
Career Coaching - HVDA	36	37	38
Level 3 Progression - HCFE	81	83	85
Administration of LLP	4	4	4

Project	2008/09 Base £'000	2009/10 Approved allocation £'000	2010/11 Proposed allocation £'000
Support for adults into Skills for Life and NVQ Level 2 courses including Citizenship Learning (new projects to be sought)	0	62	130
Safer Streets & Homes, Target Hardening	200	170	170
Dordrecht Prolific Offenders Scheme	125	128	131
NRF Project Assistant	24	25	25
ASB Officer & Analyst	70	71	73
COOL Project	65	67	68
FAST	190	194	199
Landlord Accreditation Scheme	10	10	10
LIFE - Fire Brigade	33	34	35
Neighbourhood Policing	0	200	200
HMR- Support for Scheme Delivery	120	123	126
Community Empowerment Network Core Costs	137	140	144
Community Chest	90	90	90
NAP Residents Priorities	221	221	221
NAP Development	40	40	40
Neighbourhood Renewal/Hartlepool Partnership	90	90	90
NR & Strategy Officer (including Skills & Knowledge)	50	51	53
Resources allocated to support Council's core services	0	230	258
	4,327	5,396	5,643

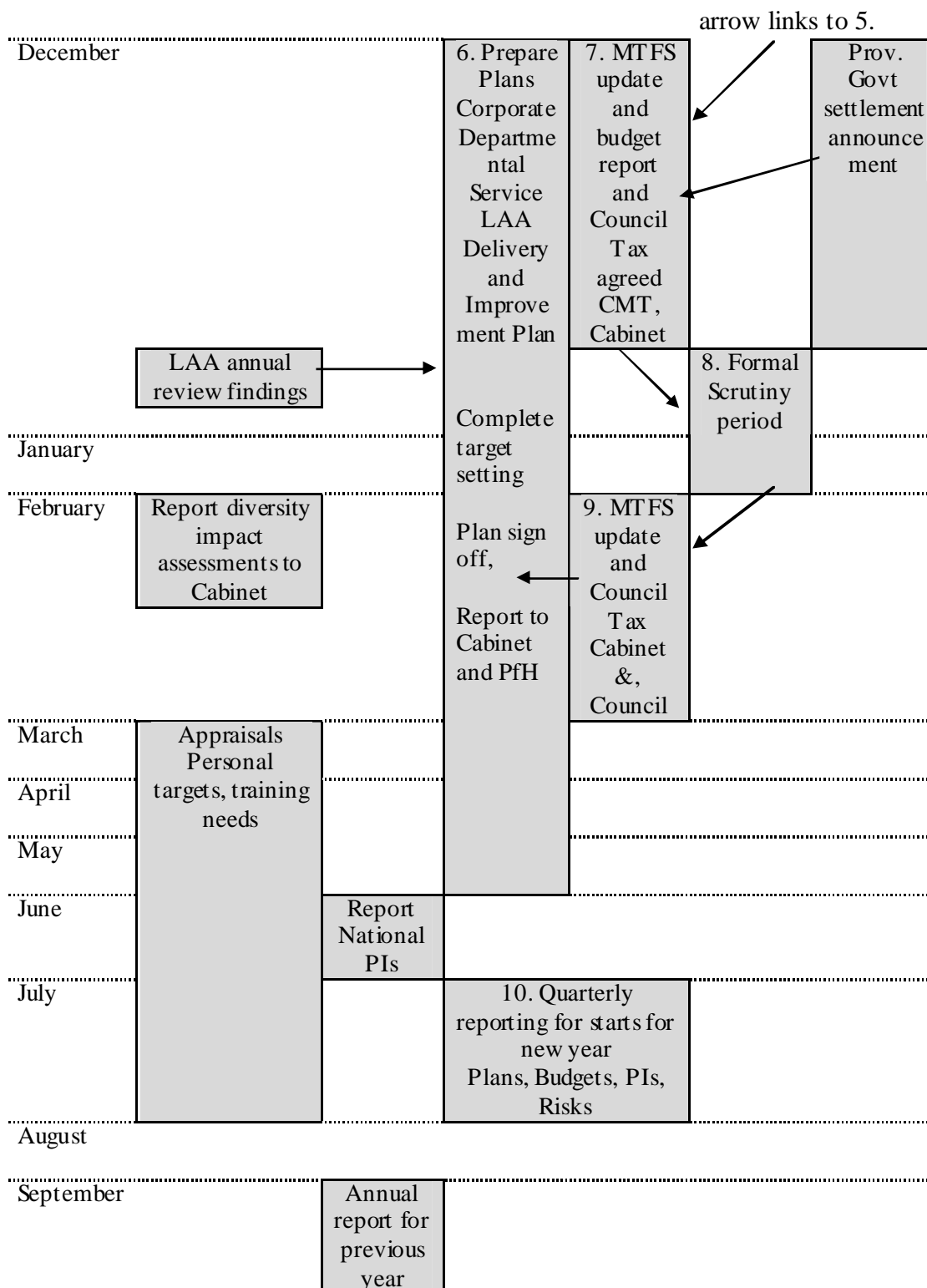
TOTAL AREA BASED GRANT **10,408** **11,791** **11,776**

Appendix 3

Overview of Service and Financial planning process



Continued



Budget Timetable

<u>Time</u>	<u>Activity</u>
May to September	Cabinet and the Corporate Management Team consider key policy objectives and financial issues. This includes an assessment of resources available, new policy objectives, additional funding for existing policy objectives and the achievement of efficiencies. Towards the end of September this also includes an assessment of emerging trends in the current year and the development of an Outturn Strategy.
Late September/Early October	Cabinet determines initial budget proposals to be put forward for consultation.
October to November	Initial Budget Consultation with non executive councillors via Scrutiny Committees and political group briefings, Business Sector and Trade Unions.
October to November	Cabinet and CMT consider any new budget issues and refines initial proposals to reflect changing information.
Late November/early December	Government announce grant allocation for forthcoming year. Scrutiny Co-ordinating Committee report back to Cabinet on initial budget proposals.
Late December	Cabinet finalise budget proposals taking account of consultation feedback and Government Grant announcement.
Late December to January	Second round of Consultation meetings with non executive councillors, Business Sector and Trade Unions.
Late January	Final Grant allocations announced by Government.
Early February	Cabinet finalise budget proposals to be recommended to Council.
Mid February	Council considers Cabinet's budget proposals. If approved the budget and Council Tax are set. If not approved there is a further round of Cabinet and Council meetings to reach agreement on budget proposals.

Summary of 2008/09 emerging trends included as budget pressures from 2009/10

	2008/2009 Forecast Outturn Adverse/ (Favourable) £'000	2009/2010 Budget Pressure/ (Saving) £'000
<u>Adult and Community Services</u>		
- Working Age Adults Increase demand owing to demographic trends and increasing need for services.	850	855
In 2008/2009 there will also be a one-off pressure of £450,000 from a delay in achieving transport and a specific care package efficiency.	450	450
- Mental Health Increase demand for residential placements.	200	200
- Older People Care Increase demand owing to demographic trends and increasing need for services, especially Older People with dementia	368	390
<u>Children's Services</u>		
- Children and Families Support Cost of increased number of Looked After Children and associated care, including preventative work and Special Guardianship orders.	856	1,145
<u>Corporate Issues</u>		
- Energy Costs Higher prices at end of existing contracts	276	285
- Job Evaluation This area is not overspending in 2008/09, but is identified as a risk area owing to the potential impact of appeals and other changes. Therefore, an increased provision is included in the base budget for 2009/10 and future years.	0	900
<u>Temporary Corporate Savings</u>		
- Centralised Estimates In 2008/09 the Council has earned higher interest on its investments and cash flows than expected. Owing to reductions in interest rates this level of income will not be sustainable in 2009/10. However, it is expected that there will be a reduced benefit of £1m in 2009/10. As detailed in the main report part of this amount is earmarked for one off costs relating to Building Schools for the Future and to meet the repayment of severance costs.	(2,000)	(1,000)

**SUMMARY OF APPROVED 2009/10 BUDGET AND BUDGET FORECASTS 2010/11 TO
2012/13 (Reported to Council 12th February 2009)**

	2009/2010 APPROVED BUDGET £m.	2010/2011 PROJECTED BUDGET £m.	2011/2012 PROJECTED BUDGET £m.	2012/2013 PROJECTED BUDGET £m.
<u>DEPARTMENTAL REQUIREMENTS</u>				
Adult and Community Services	31.716	31.927	32.730	33.548
Chief Executives Department	5.333	5.382	5.521	5.659
Rent Allowances/C.Tax benefit not subsidised	1.364	1.398	1.433	1.469
Rent Allowances Grant	(1.157)	(1.186)	(1.216)	(1.246)
Children's Services	18.482	18.850	19.325	19.808
Neighbourhood Services	15.494	15.684	16.084	16.486
Regeneration & Planning	5.622	5.727	5.871	6.018
TOTAL DEPARTMENTAL REQUIREMENTS	76.854	77.782	79.748	81.742
<u>EXTERNAL REQUIREMENTS</u>				
Magistrates, Probation and Coroners Court	0.187	0.192	0.197	0.202
North Eastern Sea Fisheries Levy	0.021	0.022	0.023	0.024
Flood Defence Levy	0.046	0.047	0.048	0.049
Discretionary NNDR Relief	0.034	0.035	0.036	0.037
<u>CORPORATE COMMITMENTS</u>				
I.T.	2.625	2.691	2.758	2.827
Audit Fees	0.345	0.354	0.363	0.372
Centralised Estimates	6.602	6.918	6.923	6.924
Insurances	0.378	0.387	0.397	0.407
Designated Authority Costs	0.089	0.091	0.093	0.095
Pensions	0.353	0.362	0.371	0.380
Members Allowances	0.355	0.364	0.373	0.382
Mayoral Allowance	0.077	0.079	0.081	0.083
Emergency Planning	0.093	0.095	0.097	0.099
<u>NEW PRESSURES</u>				
Prudential Borrowing Costs - Mill House	0.000	0.309	0.309	0.309
Contingency	0.023	0.024	0.025	0.026
Planning Delivery Grant terminated	0.117	0.121	0.124	0.127
Strategic Contingency	1.038	1.079	1.111	1.139
2006/07 Final Council Commitments	0.047	0.048	0.049	0.050
2007/08 Provision for Grants/Pressures/Priorities	0.078	0.081	0.083	0.085
Provision for Cabinet projects	0.052	0.053	0.054	0.055
Procurement savings	(0.316)	(0.324)	(0.332)	(0.340)
2007/08 Efficiency Savings	(0.297)	(0.289)	(0.286)	(0.293)
Job Evaluation	5.085	5.317	5.449	5.585
2008/09 Corporate efficiencies	(0.205)	(0.210)	(0.216)	(0.221)
2010/11 Business Transformation Efficiencies	0.000	(2.088)	(2.140)	(2.194)
2011/12 Business Transformation Efficiencies	0.000	0.000	(1.105)	(1.133)
2012/13 Business Transformation Efficiencies	0.000	0.000	0.000	(2.020)
Headroom for 2010/11 Pressures	0.000	1.500	1.538	1.576
Headroom for 2011/12 Pressures	0.000	0.000	2.000	2.050
Headroom for 2012/13 Pressures	0.000	0.000	0.000	2.000
2009/10 Pressures year 2 and 3 additional costs	0.000	0.100	0.312	0.312
Area Based Grant	11.791	11.776	12.070	12.372
Area Based Grant Review	(0.287)	(0.414)	(0.424)	(0.424)
New Burdens funded from Formula Grant	0.011	0.012	0.012	0.012
Benefit Subsidy income	(0.200)	0.000	0.000	0.000
TOTAL CORPORATE REQUIREMENTS	28.142	28.731	30.393	30.955
Parish Precepts	0.024	0.025	0.026	0.027
Contribution from Budget Support Fund and other reserves	(4.630)	(1.523)	(0.846)	0.000
Lower Protection costs - release of reserve	(0.200)	0.000	0.000	0.000
GROSS BASE BUDGET REQUIREMENT	100.190	105.015	109.321	112.724

	2009/2010 APPROVED BUDGET £m.	2010/2011 PROJECTED BUDGET £m.	2011/2012 PROJECTED BUDGET £m.	2012/2013 PROJECTED BUDGET £m.
Council Tax Percentage Increase	3.9%	3.9%	3.9%	3.9%
Council Tax - base income	38.255	39.747	41.297	42.908
Area Based Grant	11.791	11.776	12.070	12.372
Formula Grant	49.834	51.522	52.810	53.074
Total External Finance	61.625	63.298	64.880	65.446
Collection Fund Surplus/(deficit)	0.310	0.200	0.200	0.200
BUDGET LIMIT	100.190	103.245	106.377	108.554
CUMULATIVE DEFICIT	0.000	1.770	2.944	4.170
NET ANNUAL DEFICIT ASSUMING PREVIOUS YEARS DEFICIT IS BRIDGED ON A SUSTAINABLE BASIS	0	1.770	1.174	1.226

SUMMARY OF 2009/10 COUNCIL TAX BY BAND

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £
<u>Services</u>								
Adult Social Services	280.77	327.56	374.36	421.15	514.74	608.32	701.92	842.30
Children's Services	237.75	277.36	316.97	356.60	435.86	515.09	594.35	713.21
Recreation & Tourism	53.06	61.90	70.75	79.59	97.28	114.96	132.65	159.18
Highways & Transport	55.15	64.35	73.54	82.73	101.11	119.50	137.88	165.46
Loan Repayments	71.82	83.78	95.76	107.73	131.67	155.61	179.55	215.46
Other	53.29	62.18	71.06	79.94	97.70	115.47	133.23	159.88
Refuse Collection & Disposal	47.98	55.98	63.97	71.97	87.96	103.96	119.95	143.94
Environmental Services	38.17	44.53	50.89	57.25	69.97	82.69	95.42	114.50
Planning & Development	38.47	44.89	51.30	57.71	70.53	83.36	96.18	115.42
Libraries	20.09	23.44	26.79	30.14	36.84	43.54	50.23	60.28
Community Safety & Youth Offending	17.62	20.56	23.49	26.43	32.30	38.18	44.05	52.86
Consumer Services	8.57	10.00	11.43	12.86	15.72	18.58	21.43	25.72
Council Tax For Hartlepool Borough Council Services	922.74	1,076.53	1,230.31	1,384.10	1,691.68	1,999.26	2,306.84	2,768.21
Cleveland Police Authority	121.65	141.92	162.20	182.47	223.02	263.57	304.12	364.95
Cleveland Fire Authority	41.05	47.89	54.73	61.57	75.25	88.93	102.62	123.14
Council Tax For Hartlepool Borough Council Area	1,085.44	1,266.34	1,447.24	1,628.14	1,989.95	2,351.76	2,713.58	3,256.30

Extract from Council's Constitution – Part 4 Financial Procedure Reviews

Budget/Reserves Transfers & Contingencies

The Council sets budgets for both Revenue and Capital expenditure; equally the Council holds reserves for earmarked purposes. Circumstances can and do change that result in those detailed budgets becoming outdated. It is necessary to ensure good financial management that flexibility exists to allow transfers of resources.

All transfers must be notified to the Chief Financial Officer for their agreement prior to those transfers being actioned in the Accounting System. All transfers must leave the originating budget with sufficient funds to meet its commitments for the provision of that service at the level approved by Council within the Budget and Policy Framework within the current financial year and not affect the sustainability of the service in future financial years.

These rules should be interpreted for both budget and reserve transfers and cover:

- Detailed transfers between service areas within a Director's/Chief Officer's control;
- Transfers from Revenue and Capital;
- Transfers of managed revenue underspends to the following financial year;
- Transfers of resources into and from Specific Reserves.

For Capital these rules cover:

- Transfers between projects;
- Transfers from Capital to Revenue, which are subject to specific rules.

Revenue Transfers

In relation to budget transfers the following rules apply:

- Changes to staffing structures need to be approved in accordance with the relevant Council policy and be approved by the relevant Director, the Chief Executive, CPSO and CFO and must be wholly sustainable. No permanent staffing changes can be funded from reserves without Cabinet and Council approval. Approval to fill all vacant posts must be granted by the Monitoring of Vacancy Panel prior to the commencement of the recruitment process.
- In relation to transfers between service areas under a single Director's control, the Director may transfer budgets as required up to £100,000.
- In relation to transfers between service areas under a single Director's control of between £100,001 and £500,000, these must be authorised by the relevant Portfolio Holder.
- In relation to transfers between service areas covering more than one Directorate, transfer of budgets up to £100,000 of a budget, must be authorised by the Cabinet.
- Budget transfers in excess of the above limits must be approved by the Council.

Transfers from Revenue to Capital are allowed subject to continued service delivery as determined in 4.5.1.

Transfers of managed revenue underspends from one year to the following are allowed subject to the transfer not exceeding 10% or £500,000, whichever is the lower, of the Departmental budget. Details of contributions to managed revenue underspend must be reported to Cabinet within the annual outturn report.

In addition, transfers into and from Specific Reserves and technical budget adjustments necessary to allocate grant resources and comply with grant conditions are allowed. Details of contributions to Specific Reserves must also be reported to Cabinet within the annual outturn report.

Capital Transfers

In relation to Capital, transfers of resources from one project to another subject to a maximum of:

- £5,000 or 10%, whichever is the higher, for projects up to £100,000;
- £20,000 or 10%, whichever is the higher for projects between £100,001 and £500,000;
- £100,000 or 10%, whichever is the lower for projects above £500,001, which must be approved by the CFO prior to being authorised by the relevant Portfolio Holder and reported with the quarterly budget monitoring report.

The Council must approve budget transfers in excess of the above limits.

Transfers between capital and revenue are allowed subject to the continued delivery of the Capital Programme and compliance with capital accounting regulations and specific funding arrangements and approved by the CFO, Internal Audit and reported to Scrutiny Co-ordinating Committee.

Contingencies

In circumstances where action is required for which no or insufficient budget provision is available the Cabinet has authority to authorise the incurring of expenditure up to £100,000 in any one year from contingencies with maximum allocations for any one instance of £10,000, subject to the budget provision for Cabinet contingency.

Responsibilities of the Chief Financial Officer:

- To maintain and administer the scheme of budget transfers and contingencies.

Responsibilities of Directors and Chief Officers:

- To ensure the Chief Financial Officer is informed of any changes, which require a budget transfer.

Credit and Counterparty Risk Management

The Office of the Deputy Prime Minister (now CLG) issued Investment Guidance on 12th March, 2004 and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and applies its principles to all investment activity. In accordance with the Code, the Chief Financial Officer has produced its treasury management practices covering investment counterparty policy which requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for decision making on investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The strategy proposed for approval by the Council is set out below.

Strategy Guidelines – The main strategy guidelines are contained in the body of the Treasury Strategy Statement. Because the Council's investment funds will be pooled with Cleveland Fire Authority the Council's share of these limits will equate to approximately 5/6^{ths} based on its share of the pool.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within twelve months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity);
- A Local Authority, Parish Authority or Community Authority.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles,

such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies;

- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society. This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

	Fitch	Moody's	Standard & Poors	Limit for Investment Fund	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£6m	364 days
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£3.5m	364 days
Other Institution Limits	Other Local Authorities			No Limit	364 days
	Nationalised Banks			£7m	364 days
	Debt Management Office			£20m	364 days
	UK Banks covered by UK Government Guarantee Scheme			£7m	364 days

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any investments with:

- **Building societies not meeting the basic security requirements under the specified investments.** The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Investment Fund may use building societies with assets over £1bn. These will be limited to £2.5m over 3 months.
- Any **bank or building society** that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£6m	3 years
Other Local Authorities				No limit	3 years
Nationalised Banks				£7m	3 years
Debt Management Office				£20m	3 years
UK Banks covered by UK Government Guarantee Scheme				£7m	3 years

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis and as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the

list immediately by the Chief Financial Officer and if required new counterparties which meet the criteria will be added to the list.

The Council's advisors have notified the Council that under the terms of some of the Government Guarantees and support are able to be varied by the Government with three months notice and that the Council should reflect this in the relevant criteria. Whilst this is an appropriate legal position it fails to take into account the reasons that Government guarantees and support were given in the first instance and the practical issues in the wider economy should such organisations fail. On this basis it is recommended that a three month time limit NOT BE APPLIED, but that the Chief Financial Officer keep the position and use of such counterparties under review at the existing time periods. Clearly there is an element of risk in this, however, moving to a shorter term position with differing counterparties gives rise a different risk – i.e. reliance upon counterparties NOT guaranteed or supported which is in practice likely to be greater and hence it is recommended that the Council relies upon the guarantees and support.

Prudential Indicators and Treasury Limits for 2009/2010 to 2010/2011

The Council needs to approve a number of Prudential Indicators for the next three years based on the proposed Capital Programme, to comply with the relevant Statutory Code of Practice. These are detailed below:

Incremental Impact of Capital Expenditure on Council Tax

This indicator identifies the gross revenue costs associated with new schemes introduced to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans.

	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
Incremental Impact on Council Tax (Band D)	£6.17	£7.89	£4.28

Ratio of Financing Costs to Net Revenue Stream

This shows the net cost of capital borrowing as a percentage of the net budget, which is spent on servicing debt. The upwards trend reflects the increasing costs associated with each years capital expenditure and the expected reduction in investment income as reserves are used up.

	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
Net Revenue Stream	6.89%	6.76%	6.55%

Estimate of Capital Expenditure

This indicator sets the total value of capital expenditure for the year. This only includes capital expenditure financed by grants where the allocation has been made known at the time of preparing this report. The actual level of capital expenditure may be greater than is shown below if the Council secures additional grant funding.

	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Capital Expenditure	22,194	21,575	19,511

Estimate of Capital Expenditure Financed by Borrowing

This indicator sets the total value of capital expenditure financed by borrowing for the next three years.

	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Capital Expenditure Financed from Borrowing	6,282	7,596	4,596

Capital Financing Requirement (CFR) and Net Borrowing

The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The Council is required to pay off an element of the accumulated CFR where assets have short lives, such as vehicles each year through a revenue charge (the Minimum Revenue Provision). The Council is also allowed to undertake additional voluntary repayments.

Under the Prudential Code, a key requirement is that the Council's net borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2008/2009 and the following two financial years the CFR. The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Capital Financing Requirement	86,280	88,343	87,324

In practice level of net borrowing is substantially below the CFR as a result of temporary cash backed reserves and balances held as investments. A more useful indicator is the level of gross borrowing, which the Council will ensure does not exceed the 2010/2011 forecast CFR.

Authorised Limit

The authorised limit determines the maximum amount the Council may borrow at any one time and the levels for each forthcoming year are detailed below. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to provide flexibility to borrowing to finance capital expenditure occurring for up to 3 years in advance if more favourable interest rates can be obtained.

	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
	£'000	£'000	£'000
Authorised limit for external debt	125,000	125,000	125,000

Operational Limit

The operational boundary is the most likely prudent, but not worst case scenario, level of borrowing without the additional headroom included within the authorised limit. The level is set so that any sustained breaches serve as an early warning that the Council's in danger of overspending or failing to achieve income targets, and gives sufficient time to take any appropriate corrective action.

	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
	£'000	£'000	£'000
Operational limit for external debt	87,000	89,000	88,000

Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Council to make best use of any borrowing opportunities.

Upper limits on fixed and variable interest rate exposure	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
	£'000	£'000	£'000
Fixed Rates	91,000	95,000	95,000
Variable Rates	60,000	60,000	60,000

Maturity Structure of Borrowing

This indicator details the limits for different maturity periods.

	Upper Limit £'000	Lower Limit £'000
Under 12 months	50,000	0
12 months and within 24 months	50,000	0
24 months and within 5 years	50,000	0
5 years and within 10 years	50,000	0
10 years and above	90,000	0

Total Principal Sums Invested

This sets an upper limit for amounts invested for periods longer than 364 days.

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Limits to be placed on investments beyond year end	30,000	30,000	30,000

Note that this limit will apply to the pooled investment fund shared with Cleveland Fire Authority. The Council's 'implied' share of this limit will equate to approximately 5/6ths, based on the estimated Councils share of the investment fund.