Cabinet Agenda

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Date: 31 January 2013
Website: www.whitehorsedc.gov.uk

A meeting of the

Cabinet

will be held on Friday 8 February 2013 at 2.00pm
Council Chamber, The Abbey House, Abingdon, OX14 3JE

Cabinet Members:

Councillors
Matthew Barber (Chairman)
Roger Cox (Vice-Chairman)
Yvonne Constance
Mike Murray
Reg Waite
Elaine Ware

A large print version of this agenda is available. In addition any background papers referred to may be inspected by prior arrangement.

Please note that this meeting will be held in a wheelchair accessible venue. If you would like to attend and have any special access requirements, please let the Democratic Services Officers know beforehand and they will do their very best to meet your requirements.

Margaret Reed
Head of Legal and Democratic Services

Agenda

Open to the Public including the Press

Map and vision
(Page 4)

A map showing the location of the venue for this meeting is attached. A link to information about nearby car parking is http://www.whitehorsedc.gov.uk/transport/car_parking/default.asp

The council's vision is to take care of your interests across the Vale with enterprise, energy and efficiency.

1. Apologies for absence

To receive apologies for absence.

2. Minutes

To adopt and sign as a correct record the minutes of the Cabinet meeting held on 7 December 2012 (previously published).

3. Declarations of interest

To receive any declarations of disclosable pecuniary interests in respect of items on the agenda for this meeting.

4. Urgent business and chairman's announcements

To receive notification of any matters which the chairman determines should be considered as urgent business and the special circumstances which have made the matters urgent, and to receive any announcements from the chairman.

5. Statements, petitions, and questions relating to matters affecting the Cabinet

Any statements, petitions, and questions from the public under standing order 32 will be made or presented at the meeting.

6. Virements
(Pages 5 - 6)

To consider the attached schedule of virements.

Recommendation: To approve the virement request set in table 1 of the attached schedule.

7. New homes bonus
(Pages 7 - 10)

To consider the strategic director's report.

8. Budget 2013/14

To consider the head of finance's report. **REPORT TO FOLLOW**

9. Treasury management mid-year monitoring report 2012/13

(Pages 11 - 21)

To consider the head of finance's report.

10. Treasury management strategy 2013/14

(Pages 22 - 46)

To consider the head of finance's report.

11. Local Plan part 1- to approve a consultation draft

(Pages 47 - 50)

To consider the head of planning's report.

12. Drayton neighbourhood plan - area designation

(Wards Affected: Drayton)
(Pages 51 - 55)

To consider the head of planning's report.

Exempt information under section 100A(4) of the Local Government Act 1972

None

Vale of White Horse District Council
Abbey House, Abbey Close, Abingdon, OX14 3JE

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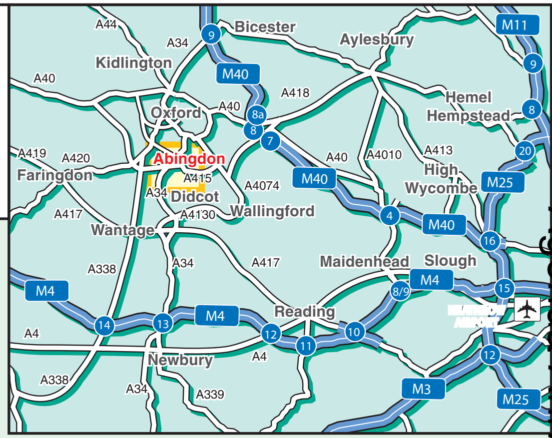

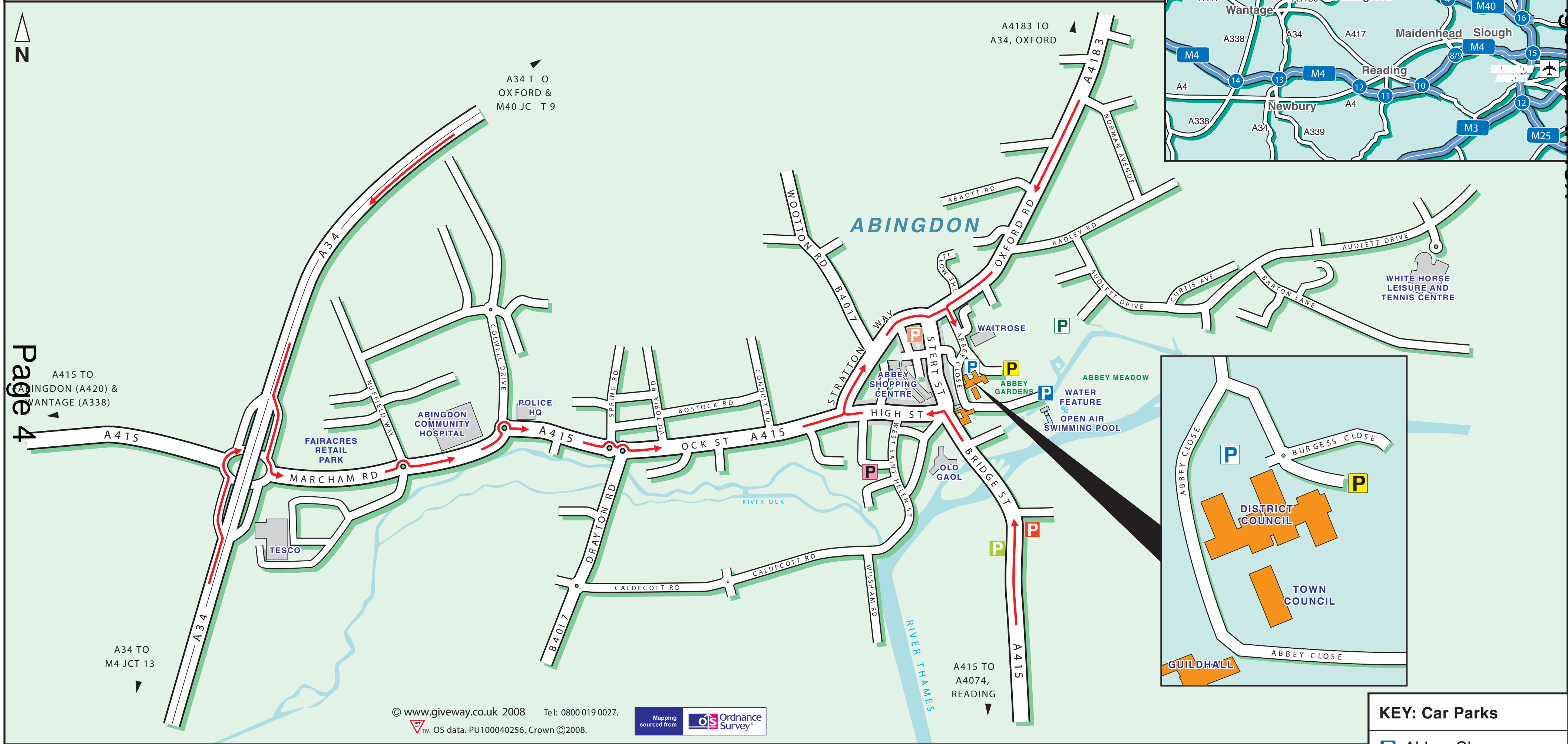

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KEY: Car Parks

- Abbey Close
- Cattle Market
- Charter Multi-storey
- Civic
- Rye Farm
- Hales Meadow
- Audlett Drive
- West St Helen Street

By rail – the nearest main line railway stations to Abingdon are either Didcot Parkway (seven miles) or Oxford (eight miles). Radley railway station is located on the main line between Oxford and Didcot and is three miles from Abingdon town centre. For details of train times visit www.nationalrail.co.uk or call 08457 484950

By bus – there are a number of bus routes serving Abingdon town centre. For details of services and timetables, visit Oxfordshire County Council's website at www.oxfordshire.gov.uk. Contact details for bus operators can be found on the travel information pages on our website www.whitehorsedc.gov.uk

Parking – details of car parks charges can be found on our website

Budget Virements requests received at 31 January 2013
for Cabinet Approval (or noting where approved under Delegated Powers)

Table 1 in this report identifies all budget virements that must be authorised by Cabinet and reported to Council.
Table 2 lists those budget virements which have been approved under delegated powers and which are reported to Cabinet for information.

Budget virements do not increase the council's expenditure. The list includes a number of virements at a detailed level. This is to ensure that, wherever feasible, budget variances on day-to-day expenditure and income do not arise and that the real budget pressures and potential underspends can be correctly identified.

Key to Type
1 Within a subjective heading within a cost centre
2 Within a Cost Centre but across subjective headings
3 Within the cost centres of a service area
4 Across service areas
5 Over £10,000

Table 1 - Virements for Approval by Cabinet

Date	Account From	Cost Centre Code	Cost Centre Name	Account To	Cost Centre Code	Cost Centre Name	Virement Total £	Virement Percentage	Reason	Type
12/12/2012	9090	EP41	Food & Safety	4400	EP41	Food & Safety	4,130	n/a	The Council has received grant from the Food Standards Agency towards implementing the Food Hygiene Rating Scheme. This virement creates an income budget for the funding and a matching expenditure budget so that the funding can be used.	2
						Total Virements	**4,130**			

Summary	
Total Type 1	0
Total Type 2	4,130
Total Type 3	0
Total Type 4	0
Total Type 5	0
Total	**4,130**

Table 2 - Virements approved under Delegated Powers for noting

Date	Account From	Cost Centre Code	Cost Centre Name	Account To	Cost Centre Code	Cost Centre Name	Virement Total £	Virement Percentage	Reason	Type
17/09/2012	4999	SB31	Contingency	4703	CD11	Economic Development	6,550	n/a	The Council has agreed to make a one-off contribution to Grove Parish council towards the costs of repairing the wall to the memorial garden to be met from contingency.	4
12/12/2012	4304	CM31	Corporate Communications	1100	CM11	Consultation	2,200	2.6%	To extend maternity cover to allow short handover period at a critical time when the new consultation system is being implemented.	3
						Total Virements	**8,750**			

Summary	
Total Type 1	0
Total Type 2	0
Total Type 3	2,200
Total Type 4	6,550
Total Type 5	0
Total	**8,750**

Cabinet Report

Vale of White Horse District Council

Report of Head of Finance

Author: William Jacobs

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Cabinet member responsible: Matthew Barber

Tel: 01235 540391

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To: CABINET

DATE: 8 February 2013

New Homes Bonus Interim Policy

Recommendations

That Cabinet:

1. ring fences all funding it receives through the new homes bonus (excluding affordable housing premium) to support the following priorities (in descending order of priority);

   a) achieving a balanced budget (supporting the revenue account)

   b) achieving a balanced budget (supporting the capital programme)

   c) provision of New Homes Bonus grant to support community schemes to be allocated to areas committees for distribution

2. ring fences the affordable housing premium to support the delivery of further affordable housing schemes.

Purpose of Report

1. This report invites cabinet to agree an interim policy regarding the use of new homes bonus.

Strategic Objectives

2. New homes bonus (NHB) has the potential to assist the council to deliver all of its strategic objectives. Having a sound policy in place to govern its use is essential in meeting the effective management of resources objective

Background

3. The Government introduced NHB in 2011. It is designed to incentivise councils to increase housing growth by rewarding them financially for such growth.

4. The detail of the scheme is well-documented elsewhere and is only repeated here in summary:

   - it is a cumulative scheme that will build up year on year until, from 2016/17 onwards, the annual payment equals the sum of the amount of NHB generated for each of the previous six years

   - we retain 80 per cent of the total generated, the rest goes to Oxfordshire County Council

   - the amount payable each year is based on upward changes to the council tax base October to October. This is a complicated calculation. Whilst the number of new homes built is dominant, there are a number of other factors included in the calculation, such as empty properties returning to use and demolitions

   - the amount payable per property is equivalent to the national average band D council tax (for 2012/13 this is approximately £1,440, of which we keep 80 per cent), with a supplement of £350 for each new affordable home

Expected levels of NHB

5. The table below sets out the amount of money that the council expects to receive over the next six years. The figures for 2011/12 - 2013/14 are known, the remainder are speculative based on officers' best estimates of housing completions over the next three years. All have been included in the medium term financial plan to 2016/17.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Year 1	452,000	452,000	452,000	452,000	452,000	452,000
Year 2		546,000	546,000	546,000	546,000	546,000
Year 3			376,000	376,000	376,000	376,000
Year 4				596,000	596,000	596,000
Year 5					648,000	648,000
Year 6						1,135,000
Annual total	452,000	998,000	1,374,000	1,970,000	2,618,000	3,753,000
Cumulative total	452,000	1,450,000	2,824,000	4,794,000	7,412,000	11,165,000

Priorities for use of NHB

6. Whilst the council can look forward to receiving substantial amounts of NHB over coming years, what it does not know is how its core funding from government will change over that period. We now know the mechanics of that change - localisation of business rates and council tax benefit alongside the introduction of universal credit -

but the financial impact is very difficult to project. It would be very shortsighted to specify now how we intend to use all of the NHB we expect to receive over the next six years, only to find that within 12 months we have to re-prioritise some of those funds to support essential services.

7. In setting the 2013/14 budget therefore, officers propose that we adopt a cautious approach towards the allocation of NHB. We can make some of this money available for wider use but we propose that cabinet sets the bar high for accessing it and allocates funds to support specified areas of expenditure in a priority order. Paragraphs eight to 12 are written in the form of a policy that we invite cabinet to adopt.

Affordable housing

8. The council receives a premium of £350 for each affordable home that is built and occupied. Given the demand for affordable housing within the district, we will ring fence all of this premium to support the provision of additional affordable homes. The amount accrued at the end of the second year of the scheme is £68,320.

9. Cabinet will consider release of the ring-fenced money at any time to support appropriate proposals brought to it by the Head of Housing and Health.

Supporting revenue and capital budgets

10. The ongoing reduction in government funding is creating pressures within local authority revenue and capital budgets. Until we have greater certainty about overall funding levels and the way the new local government funding arrangements will impact on the council it is considered prudent that NHB should be use to support all council priorities. It is felt that this is best done by using NHB to:
    a) achieve a balanced revenue budget
    b) support the capital programme

11. Should money remain after achieving these aims, this should be made available for grant funding of one-off schemes benefiting communities. This money will be allocated to area committees, pro rata to the increase in the council tax bases in each area, to be used to support community schemes.

12. A recommendation detailing how NHB will be used and the proportion to be allocated to area committees (should money remain to allow this) will be made as part of the budget setting process.

13. Once the level of future funding that the council can expect to receive becomes clearer, cabinet may consider introducing a more comprehensive policy on the use of new homes bonus. We anticipate that this will be after the interim policy has been operating for at least one year.

Options

13. Options for use of NHB largely relate to whether to spend the money more or less quickly and/or to spend it on a wider range of activities. Officers consider that using the money in the ways described above is prudent and that it is sensible at this stage to keep a narrow focus on how to best use it.

Risks

14. The risk around NHB is that housing development may stall and NHB may not accrue as quickly as anticipated. The cautious proposals set out in this report takes account of this possibility.

Financial Implications

15. The Government has already given us £452,000 and £998,000 in 2011/12 and 2012/13 respectively and committed to give a further £1,374,000 in 2013/14. There is, therefore, no financial risk associated with the proposed use of these funds.

Legal Implications

16. NHB funding is not ring-fenced for any particular purpose so the council has a wide level of discretion in how it chooses to use the funding that it receives.

Conclusion

17. NHB is a new phenomenon that, over a relatively short period of time, will provide a boost to the council's income. Because there is still great uncertainty about the future funding of local government, officers consider that cabinet should adopt a cautious approach to its use. The proposals in this paper reflect that, but also provide the first opportunity to put the money to good use to support new affordable housing schemes and other community projects.

Background Papers

None

Report to:

Audit & Governance Committee
Cabinet
Council

Report of Head of Finance

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Wards affected: all

Cabinet member responsible: Councillor Matthew Barber

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To:	AUDIT & GOVERNANCE COMMITTEE on	30 January 2013
	CABINET on	8 February 2013
	COUNCIL on	20 February 2013

Treasury management mid-year monitoring report 2012/13

Recommendations

That Audit and Governance Committee:

1. Notes the treasury management mid year monitoring report 2012/13, and
2. Is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

Considers any comments from Audit & Governance Committee and recommends council to approve the report.

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that the council's prudential indicators are reported to council in year. The report provides details of the treasury activities for

the first six months of 2012/13 and an update on the current economic conditions with a view to the remainder of the year.

Strategic objectives

2. An effective treasury management is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's other strategic objectives.

Background

3. The council's treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice requires a monitoring report to be provided mid year to council. The report covers the treasury activity for the period 1 April to 30 September.

4. The 2012/13 Treasury Management Strategy was approved by council on 23 February 2012. This report provides details on the treasury activity and performance for the first six months of 2012/13 against prudential indicators and benchmarks set for the year. It is also an opportunity to review and revise the limits if required. Full council is required to approve this report and amendments to the Treasury Management Strategy.

The economy and interest rates

5. An update on the economic conditions and interest rate forecasts is in appendix A.

Icelandic banks – Landsbanki

6. The council has now received £473,786 in respect of the claim for £1 million (plus interest due of £4,890) from the investment made with the failed Icelandic bank Landsbanki Islands hf. There have been three repayments to date. The Icelandic Supreme Court found in favour of UK local authorities to be paid before non-priority creditors and the council now expects to get back 100 per cent of the money deposited in Landsbanki.

Investments

7. The council's investments at 30 September 2012 were as follows (not including that with Landsbanki as above):

Table 1: Maturity structure of investments at 30 Sept 2012.	Total £'000	% holding
Money market fund (Instant access)	100	0.3%
Call account (instant access)	6,070	21%
Up to 4 months	9,000	31%
5 - 6 months	5,000	17%
6 months to 1 year	9,000	31%
Total investments	29,170	100%

8. The council currently holds all of its investments in the form of cash deposits, the majority of which have been placed for fixed terms with a fixed investment return. Twenty one per cent of the investment portfolio is held in call accounts.

9. It was clear early in 2012, that the returns achieved through direct investments in-house were considerably better than the performance of the cash invested with the fund manager Investec Asset Management.

10. Although the Investec fund can use a wider range of investments, such as certificates of deposit (CDs - fixed term securities issued by financial institutions) and Government stock (also known as gilts issued by the Treasury), the volatility in the financial markets had led to an increased demand by investors in high security investments. This demand had led to a fall in the yields on such investments. The situation has been compounded by the many credit rating downgrades of financial institutions over the last year. In order to manage this risk and maintain liquidity in the fund, the manager has to keep a spread of investments in the portfolio. This adversely impacted on the returns on the fund.

11. Officers monitored the position and a decision was made to bring the cash funds managed by Investec back in-house at the end of July 2012. These funds were reinvested directly in fixed term deposits with banks that are guaranteed by the UK government. This has produced an increase in investment income for the current year. It has also produced savings of approximately £19,000 in management fees for the year.

12. The investment income earned for the first six months is shown in table 2 below.

Table 2: Investment interest earned by investment type

Investment type	Interest Earned Apr - Sep 2012			
	Annual Budget £000's	Actual To date £000's	Annual Forecast £000's	Forecast Variation £000's
Call accounts	177	15	50	(127)
Cash deposits	0	189	433	433
MMF	0	6	6	6
Investec – Fund Mgmt	240	47	47	(193)
Total Interest	**417**	**257**	**536**	**119**

Treasury activity

13. Interest earned in-house in the first six months of the year totalled £257,230 on an average balance of £25 million. The forecast for the year is now estimated at £536,000. This equates to an average rate of return of 2.06 per cent. Funds invested with Investec earned £46,879 on £10 million, equivalent to an annual rate of 1.08 per cent after fees. The benchmark for the period (7 day LIBID) was equivalent to an annual rate of 0.47 per cent.

14. Re-investment opportunities are not nearly as attractive as six months ago. One year rates have dropped by over 1.25 per cent. There is currently little incentive to

reinvest in longer term periods. The governments Funding to Lending Scheme has lowered bank funding costs and been extended to building societies. This access to cheaper borrowing is a key factor in the fall in market rates now available.

15. The weighted average maturity period of investments is now 156 days. As a result of the many banking downgrades, there are now fewer financial institutions meeting the council's investment criteria. When it is possible investments will be placed with highly rated institutions with a view to increasing the weighted average maturity of the portfolio.

Performance measurement

16. A list of investments as at 30 September is shown in appendix B. All investments were with approved counterparties. The average level of investments held was £25 million and the average return on these investments is shown below in table 3. This shows in summary the performance of the council's investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to assess and monitor the council's investment performance for each type of investment.

Table 3: investment returns achieved against benchmark

	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Bank & building society deposits - managed in house	0.43%	2.06%	1.63%	7 day LIBID
Investec Asset Management	0.47%	1.08%	0.61%	110% 7 day LIBID
Industry average	0.47%	0.32%	-0.15%	Quarter 1 April - June

Treasury management limits on activity

17. The council is required by the Prudential Code to report on the limits set each year in the Treasury Management Strategy. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits and our performance are shown in appendix C.

Recommended changes to the treasury management strategy

18. In the volatile economic climate it has become increasingly difficult to find suitable investments that meet the approved investment criteria. Most financial institutions have all been downgraded in some way over the last few years. As a result less banks are available for the council to invest in. A review of limits during the year resulted in changes made to the limits for government backed banks and eligible institutions. These amendments were reported to audit and governance committee on 11 July 2012. An extract is provided in appendix D. Full council is required to approve these amendments.

Debt activity during 2012/13

19. During the first six months of 2012/13 there has been no need for the council to borrow. The council will continue to take a prudent approach to its debt strategy. The prudential indicators and limits set out in appendix C provide the scope and flexibility for the council to borrow in the short-term up to the maximum limits if such a need arose within the cash flow management activities of the authority for the achievement of its service objectives.

Financial implications

20. This time last year forecasts were that inflationary pressures would mean that interest rates would have to start rising towards the end of 2012. This hasn't happened and the current outlook for growth for the UK economy means interest rates are very low and likely to remain so. Investments made early in 2012 should increase the interest earned on investments for 2012/13 by over £100,000. However from 2013 income may reduce for a year or so until market rates rise. This will be reflected in the council's medium term financial plan (mtfp).

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Revised budget – Feb 2012	410	418	537	743	1129
Revised forecast - Jan 2013	536	356	376	659	952

Legal implications

21. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

22. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

Conclusion

23. This report provides details of the treasury management activities for the period 1 April 2012 to 30 September 2012 and the mid year prudential indicators to council.

24. These details confirm that treasury activities have operated within the agreed parameters set out in the approved treasury management strategy, and provides the monitoring information for audit and governance committee to fulfil the role of scrutinising treasury management activity.

Background papers

None

Appendices

A – Economic update and interest rates
B – List of investments as at 30.9.12
C – Prudential Indicators
D - Amendments to the Treasury Management Strategy Extract

Economic Update and interest rates

25. The Bank of England lowered its expectations for the speed of recovery and rate of growth in August. The growth in the UK economy remains weak and forecasts for growth have been reduced for the next two years. Forty per cent of the UK output depends on overseas trade. The euro zone (EZ) economies remain weak and concerns persist that some EZ countries are falling into negative growth.

26. Higher unemployment, job fears, high inflation eroding disposable incomes, small or no pay increases are all factors contributing to consumers ability to spend and overall living standards have fallen in real terms due to the sharp price rises relative to wages. Average real wages have fallen every month since June 2008. The squeeze on households' income will remain a critical factor in the economy over the next few years. Inflation is the main cause and will continue to have the greatest impact on living standards as real income will continue to decline. The weak recovery has meant that social security payments remain high and tax income is low.

27. Looking ahead the EZ crisis is far from resolved as Greece has failed to achieve the deficit reduction targets so a third bail out may be required. Northern EU countries may not agree to support this. Economic growth is forecast to remain low for the next 24 months and the base rate will not be increased whilst growth is low. This means that investment returns will also remain low.

28. The government Funding for Lending Scheme has been introduced to improve access to mortgages at lower rates. This has affected lenders need to borrow and money market rates have fallen considerably as a result. There will be a need to increase interest rates and reverse the government bond purchases at some stage, but it is unlikely to happen in the next 12 to 24 months.

29. Investor demand in UK gilts as a 'safe haven' continues to keep yield increases down. Long term rates will eventually rise, mainly due to the fact that high volumes of gilts have been issued already in the UK and also in other major western countries.

30. The interest rate forecast is based on the assumption that growth starts to recover in the next three years. If the EZ crisis worsens or low growth in the UK continues the base rate is likely to remain low for longer than this forecast.

31. Concerns over investment counterparty risk remain because of the volatile economic conditions. However the council's current treasury management policy manages this risk down to a low level.

Interest rates

32. The Bank of England changed its forecast significantly in the August Inflation report and reduced growth to 1% in 2013 and 2% in 2014.

33. **Bank rate** - remained unchanged at 0.5% throughout the first half of 2012/13. The earlier forecast of a rate rise in September 2013 has been postponed until Q4 in 2014.

Bank rate

	Now	Previously
Q1 2013	0.50%	0.50%
Q1 2014	0.50%	0.50%
Q1 2015	0.75%	1.00%

34. **Deposits rates** have fluctuated in a very narrow range during the first six months of the financial year. Investment rates have remained flat with a range between 0.5 per cent to around 1.5 per cent for up to a year's maturity. This has dropped significantly as banks and building societies were offered further cheap cash supply . The short term rates from one month to six months offer very little differential with six month rates ranging between 0.37 per cent and 0.63 per cent.

35. Sector’s forecast of the expected movement in medium term interest rates:

Sector's interest rate forecast

	Now	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank base rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
3m LIBID	0.50%	0.50%	0.60%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%
6m LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%
12m LIBID	0.70%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%
5 yr PWLB rate	1.60%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%
10 yr PWLB rate	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%
25 yr PWLB rate	3.80%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%
50yr PWLB rate	3.90%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%

Investments as at 30 September 2012

Counterparty	Deposit Type	Principal	Rate
Manchester Building Society	Fixed	2,000,000	1.50%
National Counties Building Society	Fixed	3,000,000	1.50%
West Bromwich Building Society	Fixed	2,000,000	1.40%
Cambridge Building Society	Fixed	2,000,000	1.40%
Lloyds TSB Bank Plc	Fixed	2,000,000	3.10%
Lloyds TSB Bank Plc	Fixed	3,000,000	3.00%
Lloyds TSB Bank Plc	Fixed	2,500,000	3.00%
Lloyds TSB Bank Plc	Fixed	2,500,000	3.00%
Royal Bank of Scotland	Fixed	4,000,000	2.25%
Royal Bank of Scotland	Call	4,000,000	1.05%
Santander	Call	2,070,000	0.80%
Goldman Sachs	MMF	100,000	Variable
Total Investments		29,170,000	

Prudential indicators as at 30th September 2012		
	2012/13	Actual as at
	Original Estimate	30-Sep
Debt	**£m**	**£m**
Authorised limit for external debt		
Borrowing	5	0
Other long term liabilities	0	0
	5	**0**
Operational boundary for external debt		
Borrowing	2	0
Other long term liabilities	0	0
	2	**0**
Interest rate exposures		
Maximum fixed rate borrowing	5	**0**
Maximum variable rate borrowing	5	**0**
Investments		
Interest rate exposures		
Limits on fixed interest rates	50	23
Limits on variable interest rates	10	6
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	20	0

Extract from:
Audit and Governance Committee Report 11 July 2012

Changes to the Treasury Management Strategy

3. Current financial rules provide delegated authority for the chief financial officer to make any executive decision around treasury investments and borrowing. Paragraph 16 of Appendix A of the TMS allows him to vary the counterparty list and report to council these changes.

4. Since the TMS was agreed by council in February, it has been necessary to make two amendments to the strategy. The reason for these amendments is due to the current financial climate and recent spate of downgradings of banks by the main ratings agencies, there is an increasing difficulty in finding suitable counterparties for our funds - particularly the medium to longer term investments; this has necessitated a review of the counterparty criteria.

a. The first amendment was to increase the limit on Government backed institutions, namely Lloyds Group and RBS from £5 million to £10 million.

b. The second amendment was to re-insert the “Banks 3” paragraph in the ‘eligible institutions’ part of Appendix A. When the Treasury Management Strategy (TMS) for 2012/13 was approved earlier this year the Eligible Institutions (Banks 3) was omitted, possibly due to following the Sector template upon which we base our TMS, as this did not include them either. The recent review of the credit ratings, has meant that our counterparty list is reducing and to not re-insert “Banks 3” would not allow us to use staple partners such as Santander UK and Close Brothers Bank. The following amendment was proposed and agreed by the chief financial officer:

Appendix A Paragraph 19. Insert new sub-para after 'Banks 2' as follows:

- “Banks 3 – Eligible Institutions - the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.”
- Rename current "Banks 3" to "Banks 4".

Report to:

Audit & Governance Committee
Cabinet
Council

Report of Head of Finance

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Wards affected: all

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To:	AUDIT & GOVERNANCE COMMITTEE on	30 January 2013
	CABINET on	8 February 2013
	COUNCIL on	20 February 2013

Treasury management and investment strategy 2013/14

Recommendations

The committee recommends to cabinet and council:

1. To approve the treasury management strategy 2013/14 ;
2. To approve the prudential indicators and limits for 2013/14 to 2015/16 as set out in table 2, appendix A;
3. To approve annual investment strategy 2013/14 set out in appendix A and the lending criteria detailed in table 5.

That cabinet:

Considers any comments from committee and make any necessary amendments before recommending Council to approve the report.

Purpose of report

1. This report presents the council's Treasury Management Strategy (TMS) for 2013/14 to 2015/16 and sets out the expected treasury operations for this period. It comprises of four elements required by legislation as follows:

   - The prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities (paragraph 8, table 2);
   - The treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management. This sets out how the council's treasury service will support capital investment decisions, and how the treasury management operates day to day. Its sets out the limitations on treasury management activity through prudential indicators, within which the council's treasury function must operate. The strategy is included as appendix A to the report (paragraphs 1-49);
   - The annual investment strategy. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments. This strategy is in accordance with the DCLG investment guidance and forms part of the treasury management strategy. (appendix A, paragraphs 20 – 49);
   - A statutory duty to approve a minimum revenue provision policy for 2013/14 (paragraphs 44-45).

   It is a requirement of the CIPFA 2011 Treasury Management Code that this report is approved by Full Council on an annual basis.

Strategic objectives

2. Effective treasury management is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's other strategic objectives.

Background

3. Treasury management is the management of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

4. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and the long term cash flow plans to ensure that the council can meet its capital spending obligations.

5. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

6. The council's treasury management strategy 2013/14 to 2015/16 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, by its very nature and the need for compliance with associated guidance the report is technical in parts. A glossary of terms in annexe 6 should aid members understanding of some technical terms used in the report.

Recommended changes to the treasury management strategy

7. Council approved the 2012/13 treasury management strategy on 22 February 2012. The proposed strategy for 2013/14 includes the changes detailed below, which cabinet is asked to recommend to council:

   a) To raise the limit that can be invested in UK government backed institutions to £15 million.

   This change is proposed due to the limited number of counterparties available to the council as a result of so many credit rating down grades over the last year. The council had restricted lending to registered UK banks at an operational level whilst uncertainties continue in Europe. UK part nationalised banks have significant UK government ownership which provides assurance to investors of security.

   b) To extend the investment period with the council's own 'house bank the Co-operative Bank plc to three months duration and set a limit of £5 million.

   This change is proposed to allow greater flexibility in the management of short term investments. Current market conditions have produced a flat investment rate between one month and six months. There is no added value to be gain in investing in short term periods between three and six months. However, allowing investments to be made short term up to three months with the council's own bank will allow the flexibility to invest at the right time for periods from six months to one year.

   c) To provide the facility to invest £3 million in a pooled property fund.

   This change is proposed so that the council has the option to expand the current investments that are linked to property in the council's portfolio. This gives flexibility to improve investment spread across sectors and the option to reduce the amount or core cash invested directly in fixed cash deposits. The advantage of a pooled property fund is that it can be sold quickly for liquidity if required. Any such investment would only be made after a review of options available, in comparison with direct property investment options and after taking expert advice.

   d) To add a limit of £5 million for the investment in corporate bonds with a minimum AA- credit rating or equivalent.

   e) To add a limit of £3 million for investment in equities via a pooled fund.

   f) To provide a limit of £15 million for investment in managed bond funds.

   All of the changes proposed in (d) to (f) are to provide a facility for the council to use these types of investment category subject to the counter limits in the report in table 5 of appendix A. All of these categories have previously been set out within the specified and non specified criteria, however the changes now specify more detailed limits for each investment type. This will provide flexibility to spread investments over types and sectors. Any such investment would only be made after an assessment of risk and seeking advice from the council's treasury advisors.

g) To change the counterparty limits and maturity periods for investments with building societies as set out in table 5 of appendix A.

   This change is proposed in order to improve the selection of building societies available for investing in the short term periods under one year. Security risk is managed in relation to the size of assets held by the building society and a reducing maturity period.

Financial implications and risk assessment

8. This report and all associated policies and strategies set out clearly the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to protect the council's finances by managing its risk exposure.

9. In the last few years investment income has fallen due to lower interest rates. In the medium term interest rates are expected to rise. The table below gives an estimate of the amounts available for investment, and the investment income achievable for the next four years.

Table 1: Medium term investment income forecast.

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000's	£000's	£000's	£000's	£000's
Original budget 2012/13	417	669	993	1213	1213
Revised budget 2013/14 onwards	410	418	537	743	1129
Revised forecast for 2012/13	536	356	376	659	952
Forecast average interest rate	2.55%	1.50%	1.50%	2.25%	3.25%
Estimate of average investments	21,000	23,735	25,035	29,284	29,284

10. The 2013/14 budget setting report will take into account the latest projections of anticipated investment income.

Legal implications

11. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

12. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 (the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the ODPM Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

Conclusion

13. This report provides details of the proposed changes to the treasury management strategy and the annual investment strategy for 2013/14 which are appended to this report, together with the prudential indicators for approval to council. These documents provide the parameters within which officers will operate the council's treasury management function.

Background papers

None

Appendices

Appendix A	Treasury Management Strategy 2013/14 – 2015/16	
	Annex 1 economic condition	
	Annex 2	Prospects for interest rates
	Annex 3	Risk and performance benchmarking
	Annex 4	Property Investment policy
	Annex 5	Explanation of prudential indicators
	Annex 6	Glossary of terms

Treasury Management Strategy 2013/14- 2015/16

Introduction

1. The Local Government Act 2003 and supporting regulations require the council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable.
2. The Act requires the council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
3. The strategy in respect of the following aspects of the treasury management function is based on treasury officers' views on interest rates, supplemented with market forecasts provided by the council's treasury advisor, Sector Treasury Services. The strategy covers:
    - Prudential and treasury indicators in force that will limit the treasury risk and activities of the council;
    - Current treasury position
    - Prospects for interest rates;
    - Borrowing strategy
    - Policy on borrowing in advance of need;
    - Investment strategy;
    - Counterparty selection and limits;
    - Policy on use of external service providers;
    - Minimum revenue Provision (MRP) statement;
    - Treasury management scheme of delegation and Section 151 role.
4. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level where any increases in charges to revenue are from:
    - Increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
    - Any increases in running costs from new capital projects are identified and limited to a level which is affordable.

    A key requirement of this report is to explain the risks, and the management of those risks, associated with providing the treasury service. Legislation requires that as a minimum two further treasury reports are provided: a mid-year monitoring report and an outturn report after the year-end that reports on actual activity for the year.

Treasury Limits for 2013/14 to 2015/16

5. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the “Affordable Borrowing Limit”. The Authorised Limit is the legislative limit specified in the Act.

6. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

7. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.

8. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits are set out in table 2 below.

Cabinet is asked to recommend council to approve the limits:

Table 2: Prudential indicators

	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Debt	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt				
Borrowing	5	10	10	10
Other long term liabilities	0	5	5	5
	5	**15**	**15**	**15**
Operational boundary for external debt				
Borrowing	2	5	5	5
Other long term liabilities	.	.	.	.
	2	**5**	**5**	**5**
Interest rate exposures				
Maximum fixed rate borrowing	nil	100%	100%	100%
Maximum variable rate borrowing	nil	100%	100%	100%
Investments				
Interest rate exposures				
Limits on fixed interest rates	50	40	40	40
Limits on variable interest rates	10	30	30	30
Principal sums invested > 364 days				
Upper limit for principal sums invested >364 days	20	30	30	30

Current position

9. The council's investments at 31 December 2012 were as follows (excluding Landsbanki):

Table 3: maturity structure of investments at 31 December:	Total £000's	% holding
Call	9,200	26%
Money market fund	700	2%
Up to 4 months	12,000	34%
5-6 months	2,500	7%
6 months to 1 year	10,500	30%
Total investments	**34,900**	**100%**

10. The council currently holds all of its investments in the form of cash deposits, the majority of which have been placed for fixed terms with a fixed investment return.

Icelandic banks – Landsbanki

11. The council has now received £473,786 in respect of the claim for £1 million (plus interest due of £4,890) from the investment made with the failed Icelandic bank Landsbanki Islands hf. There have been three repayments to date. The Icelandic Supreme Court found in favour of UK local authorities to be paid before non-priority creditors and the council now expects to get back 100 per cent of the money deposited in Landsbanki.

Investment performance for the year to 31 December 2012.

12. The council's budgeted investment return for 2012/13 is £0.417 million, and the actual interest earned to date is shown as follows:

Table 4: Investment interest earned by investment type				
		Interest Earned		
Investment type	Annual Budget £000's	Actual to date £000's	Annual Forecast £000's	Forecast Variation £000's
Call accounts	177	36	41	(136)
Cash deposits	0	321	433	433
MMFs	0	6	6	6
Investec - Fund Mgmt	240	47	47	(193)
Total interest	**417**	**411**	**527**	**110**

Borrowing Strategy 2013/14 – 2015/16

13. The council has to provide details of its borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council has no external debt and does not expect to borrow long term to finance the current capital programme. The council will continue to take a prudent approach to its debt strategy. In general, the council will borrow for one of two purposes:

- To finance cash flow in the short-term;

- To fund capital investment over the medium to long term.

14. The prudential indicators and limits for debt are set out in table 2 and provide the scope and flexibility for the council to borrow in the short-term up to a maximum of £10 million, if such a need arose within the cash flow management activities of the authority, for the achievement of its service objectives. The council's capital investment plans do not currently demonstrate a need to borrow, as all projects are fully funded.

15. The bank rate is expected to remain at a historically low level for another year. This does provide a window of opportunity to review the strategy of undertaking external borrowing for new projects.

16. The treasury management strategy for the forthcoming year aims to efficiently manage the investment portfolio by reducing the amount of funds held extremely short-term for cash flow purposes and operating with an adequate but not excessive level of working capital. This optimum level is dictated by the accuracy of cash flow forecasts and, although unlikely, it is prudent to set a minimum level for the use of short-term borrowing arrangements or overdraft facilities if the cash flow forecasts prove inaccurate at any point in the year.

17. The head of finance, would in such instances take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

Policy on borrowing in advance of need

18. The council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the council can ensure the security of such funds. In determining if any borrowing will be undertaken in advance of need, the council will:

    - Consider the impact of borrowing in advance on investment cash balances and the exposure to counterparty risk. Any risk associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid year or annual reporting process.

Annual investment strategy

19. The main aim of the council's investment strategy is to maintain the security and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity. The council will ensure:

    - It has sufficient liquidity in its investments to cover cash flow. For this purpose it has set out parameters for determining the maximum periods for which funds may prudently be committed.

    - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

20. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods as and when institutional security and market confidence returns. This aim is to provide a more even and predictable investment return in the medium term.

21. The council's chief finance officer will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 6) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

Investment types

22. The types of investment that the council can use are summarised below. These are split under the headings of specified and non-specified in accordance with the statutory guidance.

Specified investment instruments (maximum period 1 year)

- Deposits with banks and building societies
- Deposits with UK local authorities
- UK Government – treasury stock (Gilts) with less than one year to maturity
- Debt Management Agency Deposit Facility (DMADF)
- Money Market Funds (MMF) (AAA rated)
- Pooled Bond funds (AAAf rated)
- Certificates of deposits issued by banks and building societies

Non-specified investment instruments (maturities over one year)

- Bank and building society cash deposits up to 5 years
- Deposits with UK local authorities up to 5 years
- Corporate bonds
- Pooled property, bond funds and UK pooled equity funds
- UK treasury stock (Gilts) up to 10 years
- Supranational bonds up to 10 years
- Direct property investment

Other Non-specified investment instruments

- Fixed term deposits with variable rate and variable maturities
- Local Authority Mortgage Scheme (LAMS)

Approach to investing

23. The council holds approximately £15 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is carried out. In addition the council has funds which are available on a temporary basis to invest. These are held pending payment over to another body such as precept payments and council tax. The amount can vary between £8 million and £15 million throughout the year and can only be invested short term (under one year). Investments will be made primarily with reference to known cash flow requirements.

24. Whilst the current market uncertainties remain the council will aim to keep investments relatively short term, but where possible will continue to look for opportunities to fix lending in the medium term with highly rated institutions when possible for core cash balances. The aim is to increase the weighted average maturity of the portfolio in order to reduce maturity risk.

25. Officers will continue to implement an operational strategy which provides tight controls on the investments placed. As a result of a sharp decline in the number of acceptable counterparties, limits have been increased for higher rated counterparties. Where possible opportunities to spread the investment risk over different types of instruments will be considered.

26. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it will make use of the UK Government deposit account (DMADF).

27. The property investment holdings will be kept under review to identify if further investments should be placed in these categories. Property funds will also be looked at in more detail for consideration. Further details on the property investment policy are contained in annex 4.

28. Money market funds are used for security and liquidity and to spread portfolio risk. The council will monitor our exposure to these funds in order to manage our security risk.

29. There will be no further investment using a fund manager at this time. However, this will be kept under review.

30. Bond funds can be used to diversify the portfolio, whilst maintaining liquidity and security. These will be considered and reviewed as an investment possibility to spread portfolio risk.

Counterparty selection

31. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Sector provides the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.

32. The council is also required to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.

33. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine the creditworthy counterparties. This is because Moodys have become far more aggressive in allocating low ratings than the other two agencies. If followed, this approach would leave the council with so few institutions on its approved lending list it would be unworkable. The information provided by Sector uses a wider array of information than just primary ratings and does not give undue weight to any one agency's ratings. Credit information is updated and monitored weekly, supplemented by daily emails, which are consulted prior to making an investment decision. The council is alerted to any changes from all three agencies

through the use of data provided by Sector. If a downgrade results in the counterparty no longer meeting the council's minimum criteria, it will not be used for future investments. Movements in CDS and other market data is also reviewed on a weekly basis. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.

34. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with and the agreement of the cabinet member responsible for finance.

Country and sector considerations

35. The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AAA from Fitch Ratings.

Counterparty limits

36. In the normal course of the council's cash flow operations it is expected that both specified and non-specified investments will be used for the control of liquidity as both categories allow for short term investments. The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will be used where the council's liquidity requirements are safeguarded. The council will lend to institutions that meet the following criteria:

Table 5: Counterparty Limits

Counterparty	Minimum Fitch Long term Rating (or equivalent)	Counterparty Limit £m	Max. maturity period	Maximum % of total investments
Institutions with a minimum rating:	F1+ / AA-	£10.0m	5 years	100%
Institutions with a minimum rating:	F1 / A-	£7.5m	1 year	80%
Institutions with a minimum rating:	F2/BBB	£5.0m	1 year	70%
Banks - part nationalised UK		£15.0m	3 years	100%
Banks - Eligible institutions	n/a	£5.0m	2 years	100%
Banks - house bank*	n/a	£5.0m	3 months	20%
Bank subsidiary - unconditional guarantee	as parent	as parent	as parent	n/a
Building societies - assets > £5000m	n/a	£5.0m	12 months	70%
Building societies - assets > £1000m	n/a	£3.5m	10 months	60%
Building societies - assets > £500m	n/a	£2.5m	9 months	50%
Building societies - assets > £250m	n/a	£2.0m	6 months	40%
Corporate Bonds	AA-	£5.0m	variable	40%
Money Market funds	AAA	£20.0m	liquid	100%
UK Government - gilts	UK sovereign	Unlimited	25 years	20%
UK Governmemt - DMADF	UK sovereign	Unlimited	6 months	100%
Local authorities , parish councils	n/a	£20.0m	25 years	20%
Supranationals	AAA	£10.0m	10 years	50%
Pooled property funds - CCLA	n/a	£3.0m	variable	10%
Share capital / Equities	n/a	£3.0m	variable	20%
Direct property investment	n/a	n/a	unlimited	80%
Managed Bond Funds	n/a	£15.0m	variable	70%

37. The criteria proposed for choosing counterparties provides a sound approach to investment in "normal" market circumstances. Whilst members are asked to approve the criteria in table 5, under the exceptional current market conditions the head of finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions.

Fund managers

38. The treasury management strategy allows for a total of up to £15.0 million portfolio to be invested with a fund manager. Fund managers can invest in a variety of investment types such as cash deposits, gilts and certificates of deposits. These types of funds can extend the spread of investment portfolio, access highly rated institutions and capitalise upon opportunities to improve returns, whilst maintaining liquidity. This is reviewed regularly, and at present it is not evident that the council can currently benefit from the service of a fund manager due to the market conditions. However, the situation will continue to be reviewed.

Risk and performance benchmarks

39. A requirement of the code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid year or annual report to audit and corporate governance committee. Detailed information for the assessment of risk is shown in annexe 3.

40. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward looking prudential indicators. The indicators used to assess the performance of the treasury function are:

    - Investment returns above the 3 month LIBID rate.
    - Maximum investment of daily balances (in-house).
    - Maintenance of a balanced portfolio.

    The results of these indicators will be reported in both the annual mid-year and year-end treasury reports.

Policy on the use of treasury management advisers

41. The council has a joint contract for treasury management advisors with South Oxfordshire District Council. A three year contract was awarded to Sector Treasury Services Limited, a subsidiary of the Capita Group Plc in October 2011. The company provides a range of services which include:

    - technical support on treasury matters, capital finance issues member reports;
    - economic forecasts and interest rate analysis;
    - credit ratings / market information service involving the three main credit rating agencies;

- provision of credit rating information, strategic advice including a review of the investment and borrowing strategies and policy documents.

42. Following the collapse of the Icelandic banks, and the subsequent local authority exposure to these defaults, the revised CLG investment guidance notes and the CIPFA Treasury Code of Practice requires the council to recognise that responsibility for treasury management decisions remains with the council at all times and to ensure that undue reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. .

Minimum revenue provision (MRP) statement 2013/14

43. The council is required to assess its MRP requirement for the year in accordance with the guidance of section 21 of the Act. MRP is only chargeable on outstanding capital liabilities. The council's MRP liability for 2013/14 is nil.

44. This will remain the case unless new capital expenditure is financed by borrowing.

Member and officer training

45. The requirement for increased member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. In compliance with the revised code, the council has provided treasury management training to members on the 17th January 2012.

Treasury management scheme of delegation and the role of the section 151 officer

46.

I. **Council**
- Receiving and approval of reports on treasury management policies, practices and activities;
- Approval of annual strategy

II. **Audit and governance Committee / Cabinet**
- Approval of /amendments to the organisations adopted clauses, treasury management policy statements and treasury management practices;
- Receiving and reviewing monitoring reports and acting on recommendations;

III. **Section 151 Officer / Head of Finance**
- Recommending clauses, treasury management policies/practices for approval, review and monitoring compliance;
- Submitting regular treasury management information reports;
- Submitting budgets and budget variations;
- Reviewing the performance of the treasury management function;
- Ensuring adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit and liaising with external audit;
- Approving the selection of external service providers and agreeing terms of appointment.

Summary

47. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can invest the council's surplus fund.

48. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

Economic conditions and interest rate forecasts

49. In order to put the investment strategy into context it is necessary to consider the external factors in the financial markets and their impact on interest rate forecasts.

    Global economy – the outlook for the Eurozone (EZ) economy dominates the financial markets and will remain until fundamental issues over the structure of the currency in the EZ are resolved. Weak growth will also continue to be a key factor as this determines how much income will be generated in relation to each counties debt repayments. Thos has affected the UK economy which is likely to affect growth in 2013. The recession is now the worst and slowest recovery of any of the five recessions since 1930.
    UK economy - the Bank of England lowered its expectations for the speed of recovery and rate of growth in August. The growth in the UK economy remains weak and forecasts for growth have been reduced for the next two years. The governments austerity measures aimed at getting the public sector deficit under control in the next four years, now look as if they may not meet the original timeframe. The UK economy is growing at a reasonable pace but recession in the Eurozone, the UK's biggest trading partner, has lower growth.
    Currently the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world, as the UK is seen as safe haven from Euro zone debt.
    Economic growth – Economic growth has basically, flat lined since the election in 2010, and the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2102. Quantitative Easing (QE) was increased again by £50bn in July 2102 to a total of £375bn.
    Unemployment – The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years in August 2012 and the numbers of unemployment benefit claimants have also been falling slightly.

    Inflation and Bank rate – Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. Inflation is expected to fall further to the 2% target level within the two year horizon.

    AAA rating – the UK's sovereign rating was recently reaffirmed, but warnings to review the position have been made if the government were to change the deficit reduction programme, or if the desired outcome was not being achieved. The status has provided a safe haven for investors.

    Sector's forward view

Economic forecasting remains difficult with so many influences affecting the UK. There does appear to be consensus among analysts that the economy remains fragile. Key areas of uncertainty include:

- The second Greek bailout package could cuase greater problems in EZ debt and a higher risk of breakdown of the EZ or even the currency itself;
- Intergovernment agreement on how to deal with the Eurozone crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;
- The impact of the UK governments austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;

- The economic performance of the UK's trading partners in particular the EU and US as some analysts suggest that recession may return to both;

The overall balance of risks remains weighted to the downside. Many consumers, corporates and banks are still focused on reducing their borrowings rather than spending so will continue to actas a major headwind to a return to robust growth.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to high volumes of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before the end of 2014 as very limited. There is potential for the start of the Bank Rate increases to be delayed further if growth disappoints.

The uncertain economic outlook has several key implications for treasury management:

- The sovereign debt issues provide a clear indication of higher counterparty risk.
- Investment returns are likely to remain low for 2013/14.
- Borrowing rates are attractive and may remain low for some time.

Prospects for interest rates

50. The bank base rate is forecast to remain unchanged at 0.5%, rising in Q4 in 2014. Sector's central view for bank rate forecasts is shown below:

	Bank of England base rate	PWLB borrowing rates (adjusted for certainty rate)		
		5 yr	25 yr	50 yr
Dec 2012	0.50%	1.50%	3.70%	3.90%
Dec 2013	0.50%	1.60%	3.80%	4.00%
Dec 2014	0.75%	2.00%	4.10%	4.30%

51. There are downside risks to these forecasts for example if economic growth remains weaker for longer than expected. However, there is also a risk that the pace of growth could pick up more quickly than expected if inflation exceeds the Bank of England's target rate of two per cent.

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.

These benchmarks are targets and so may be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.

Yield. The local benchmark currently used to assess the performance of investments for the in-house team and the fund manager is the level of returns contrasted against the London Interbank Bid (LIBID) 3 month rate. This is the interest rate a bank would be willing to pay to borrow from another bank for seven days.

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Previously, however, they have not been set out separately and explicitly for member consideration. Proposed benchmarks for the cash investments are below and these will form the basis for future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Much of the CLG and CIPFA guidance is aimed at a relatively large authority with both borrowing and investments spread over a number of years. As an indication of this, worked examples from Sector assume investments of £50 million spread over 5 years.

Liquidity. Liquidity is defined as the council "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). The in-house team keeps a daily cash-flow forecast and would only have an unseen requirement if (for example) a large receipt was received later than expected. In such a scenario, short term borrowing would be considered to cover the period of delay. In respect of this area the Council seeks to maintain:

- Bank overdraft – there is no routine overdraft facility but in an emergency we could overdraw with our transactional bankers for a short period.
- Liquid short term deposits of at least £500,000 available on instant access.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the weighted average life (WAL) of the portfolio – a shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- WAL benchmark is expected to be **150** days, with a maximum of **360** days**.**

Security of the investments. In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2007.

Average defaults for differing periods of investment

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	0.00%	0.00%	0.03%	0.06%

A	0.03%	0.15%	0.30%	0.44%	0.65%
BBB	0.24%	0.78%	1.48%	2.24%	3.11%

The council's minimum long term rating criteria is currently "A-" meaning the average expectation of default for a one year investment in a counterparty with an "A" long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £300). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio. As mentioned above, the in-house team rarely make an investment in excess of 1 year and most are considerably shorter. Further development of this approach is required to see if this methodology is suitable for a portfolio of mostly short-term investments.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- **0.03%** historic risk of default when compared to the whole portfolio. (i.e. equivalent to £300 on £1 million)

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to members in the both the Investment Mid-Year report and the Investment Annual report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

Property Investment Policy

1.0 The case for property

1.1 The Council is restricted in the different investment vehicles it is legally allowed to invest in notwithstanding the over-riding need for prudence mentioned earlier. Of the few avenues open one is property and the returns from investing in property have generally been, and currently are, greater than the limited opportunities in the money markets.

1.2 In broad terms the returns are greater because the risks are greater. Factors to be taken into account when deciding the principle of investing in property include:

- investment will be for the long term since it may not be possible, or wise, to sell quickly,
- the costs of acquisition and disposal are higher,
- there are management costs, risk of rent default and failure to honour maintenance agreements,
- different types of property and different areas carry different risks,
- generally property tends to appreciate in value, although this will vary by type and area; however, in some cases the value may go down,
- property can become functionally obsolete necessitating major refurbishment,
- without regular repair and maintenance the condition will deteriorate and the responsibility for repairs/maintenance may not always rest with the tenant,
- certain types of property may become less desirable as time goes by; this can make re-letting difficult or attract a lower calibre of tenant.

2.0 How much to invest?

2.1 The in-house cash holdings are currently adequate for cash-flow management purposes (operational capital). £34 million is invested in property and £30 million is invested in treasury investments. The investment in property currently represents 53% of the total figure.

Policy 1. The maximum percentage of the investment portfolio in property should be 80% of the total, and the cash funds invested (i.e. not held for cash-flow purposes) should not fall below £10 million.

3.0 What type of property?

3.1 There are different types of property investment with assessment of prospects as follows:

i)	shops and offices	good - although may be subject to changing fashions and working practices
ii)	industrial	good but condition can be variable
iii)	leisure	good but may be best avoided since too close to our "core" business

iv)	agricultural	moderate but too risky now
v)	woodland	poor – some is owned for environmental/leisure purposes

3.2 Average Yield Levels (%). In general, property can be categorised as prime, secondary or tertiary in terms of its desirability. 'Rack-rented' means that the maximum market rental achievable is being received. Yield derives from both capital and rent. Lower yields can indicate that the investment attracts a lower degree of risk due to the ratio of rent to capital and other factors such as location, security and regularity of income.

Policy 2. In general, properties for investment will be from the categories: retail, offices, industrial land and buildings.

4.0 Where should it be located?

4.1 There are compelling legal, cultural and financial reasons for not investing in the European mainland at the moment. Within the UK the location will influence the return and the type of property and may make management more or less difficult depending on distance from the Council offices.

Policy 3. **Only property located in the UK will be considered.**

5.0 What level of financial return?

5.1 As mentioned above, generally the greater the return, the greater the risk inherent in the investment. There are so many variables involving area, management, condition, leases and the varying return on other investments that it is difficult to draw up hard and fast rules about them and their relationship with the rate of return.

Policy 4. With regard to the rate of return, each proposal will be considered on its merits.

6.0 Review

6.1 The Policy to be reviewed annually (along with the Treasury Management Strategy).

Explanation of Prudential Indicators

Central government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Capital expenditure – shows last year's spending, this year's projected spending and the approved programme until 2014/15.

Ratio of financing costs to net revenue stream – because the council has no net debt investment interest on reserves and balances makes a positive contribution to the council's finances.

Net borrowing requirement – this demonstrates that no borrowing is planned to fund the capital programme.

In year capital financing requirement – this shows the council has no borrowing.

Capital financing requirement (CFR) as at 31 March – the CFR shows the underlying need of the council to borrow for capital purposes as determined from the balance sheet. The overall CFR of £93.018m shows that there is no need to borrow.

Incremental impact of capital investment decisions – increase in Council Tax (band D) per annum – this indicator shows the affect of the latest capital programme report on annual council tax. This indicator is based on the estimated decrease or increase in interest payable to the General Fund each year due to the changed funding of the capital programme in the latest capital report to December 2011 cabinet.

Incremental impact of capital investment decisions – This indicator shows the affect of the latest capital programme report on revenue. This indicator is based on the estimated decrease or increase in interest payable to the funding of the capital programme. As the council has no debt this indicator is not relevant.

Authorised limit for external debt – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cash flow. This has an amount included to allow for cash flow borrowing associated with the canal project.

Upper limit for fixed and variable interest rate exposure – these limits allow the council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can be prudently invested for periods in excess of a year.

GLOSSARY OF TERMS

Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage

	fluctuations in unemployment and growth caused by the business cycle.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
Gilt	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in a MMF.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

Cabinet Report

Report of Head of Planning

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To: CABINET

DATE: 8 February 2013

Public consultation on the draft Local Plan 2029 Part 1: Strategic Sites and Policies

Recommendations

That Cabinet

(a) notes progress on the preparation of the Local Plan 2029 Part 1

(b) supports the proposal for the Cabinet member for planning policy to finalise the details of the Local Plan 2029 Part 1 document and supporting material for publication for public consultation and to agree the commencement of that consultation

Purpose of Report

1. To provide an update on progress of the preparation of the Local Plan 2029 Part 1, to look ahead to the upcoming consultation stage and to agree that the cabinet member for planning policy finalise the content of the document for the purposes of public consultation and to agree commencement of the consultation period.

Corporate Objectives

2. The Vale Local Plan 2029 'Part 1: Strategic sites and policies' (formerly the Core Strategy) will guide investment and development decisions across the Vale for a fifteen year period. Through the process of producing the document and in its implementation

it will be a major contributor to achieving three of the council's corporate objectives, namely meeting housing need, building the local economy and support for communities.

Background

3. Local planning authorities must prepare a local plan which sets planning policies in a local authority area. Local plans must be positively prepared, justified, effective and consistent with national policy in accordance with section 20 of the Planning and Compulsory Purchase Act 2004 (as amended) and the National Planning Policy Framework ('the Framework').

4. Regulations[1] published alongside the Framework stipulate public consultation as part of the process of local plan preparation, both in its formative stages and when the local plan is submitted in final form to the Secretary of State for independent examination. The Framework[2] requires 'early and meaningful engagement and collaboration'. Public consultation is an important opportunity to receive opinions on and suggested improvements to the document. It is also affords interested parties the opportunity to be heard on how they may be affected by the proposals and for these matters then to be duly considered in the preparation of the next stage of the document.

5. Following a review in 2011 and publication of the Framework the emerging core strategy has been progressed with a fresh approach, and re-titled the Local Plan 2029 Part 1: Strategic Sites and Policies. This will be followed by the Local Plan 2029 Part Two: Detailed policies and local sites, to be prepared 2014-2016.

6. The council is committed to bringing the Local Plan 2029 Part 1 to adoption as soon as practicably possible. This will enable needed development to take place and for supporting infrastructure to be delivered, and will provide the district with a five year supply of land for housing, as required by paragraph 47 of the Framework.

The consultation

7. It is proposed that a public consultation will commence on 28 February 2013 with publication of the draft Local Plan 2029 Part 1 document.

8. It is proposed that on 28 March 2013 we will publish further supporting documents as set out below, to help inform the consultation

   - the draft sustainability appraisal report
   - the draft infrastructure delivery plan
   - draft topic papers that explain how and why the policies in the draft plan were developed and the alternative policy options considered, and
   - technical evidence base studies that have informed policy development and are referenced in the draft local plan and topic papers.

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[1] Regulations 18 and 19 of the Town and Country Planning (Local Planning) (England) Regulations, issued 6 April 2012

[2] Framework paragraph 155

9. If the consultation period commences on 28 February then it will close at 4:00 pm on Thursday 9 May 2012, six weeks after 28 March and will provide in total ten weeks for people to review the draft plan and submit comments on it.

10. We shall carry out a number of actions to help promote awareness of this consultation opportunity. We shall

- issue press releases (in addition to the formal notices in local papers)
- issue an edition of 'Vale Community' (our new e-bulletin, created to help people keep up to date with news of progress on the local plan)
- provide static exhibitions at key locations, eg town centres
- go mobile with an exhibition road show, and
- provide briefings for councillors and other stakeholder groups.

Local Plan Part 1 overview

11. In brief, the main development proposals we are consulting on in the Local Plan 2029 Part 1 are as follows.

12. The provision of 13,294 additional homes 2006/7 to 2028/29, or 578 homes per year, as required by the South East Plan. The alternative housing supply options we have considered will be published in a housing topic paper.

13. The allocation of the following strategic housing sites (which are in addition to those already identified in the current Local Plan, such as Grove Airfield) and details of the development they will accommodate and infrastructure and services that will be sought

- Valley Park, west of Didcot (2,150 homes)
- Crab Hill, north of Wantage and east of Grove (1,500 homes)
- Monk's Farm, north of Grove (750 homes)
- Land on the northern part of Harwell Oxford Campus (400 homes), and
- Land on the south side of Park Road, Faringdon (350 homes).

14. Identification of up to 143 hectares of employment land available for development. The majority already lies within the district's premier business sites of Milton Park and Harwell Oxford Campus. Additional future employment land identified includes land at Didcot A, after the power station is decommissioned, and land south of Williams Formula 1 at Grove, as part of the Monks Farm strategic site.

Next steps

15. Consultation is an integral part of the process of preparing the local plan and testing emerging policies. The evidence base is still being developed, and both updated evidence and the results of public consultation will help inform the completion of the Local Plan 2029 Part 1.

16. The published Local Development Scheme sets out our intention to consult on the emerging draft local plan from the end of February 2013, prior to finalising the local plan for further pre-submission consultation later in 2013 and then for adoption by October 2014.

Options

17. Production of a local plan and consultation upon it is a statutory requirement and there are no reasonable alternative options to be considered.

Financial Implications

18. The council has set aside funding to cover the costs of preparing the Local Plan 2029 and consultation on it at key stages. The costs associated with this particular consultation stage can be accommodated within the budget for this financial year and therefore there are no financial implications arising from this decision.

Legal Implications

19. The Planning and Compulsory Purchase Act 2004 requires that local planning authorities produce a local development plan for their area. Publication of the local plan in draft form for consultation meets the requirement in regulations and guidance[3] to meaningfully consult those likely to be affected.

Risks

20. Failure to consult at appropriate stages would present a significant risk to the likelihood of the Local Plan later being found sound and capable of adoption. No risks arise from the recommended decision.

Other implications

21. None.

Conclusion

(c) Cabinet is recommended to note progress on the preparation of the Local Plan 2029 Part 1 and support the proposal for the Cabinet member for planning policy to finalise the details of the Local Plan 2029 Part 1 document and supporting material for publication for public consultation and to agree the commencement of that consultation.

[3] The Framework and the Town and Country Planning (Local Planning) (England) Regulations, 6 April 2012

Cabinet Report

Report of Head of Planning

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DATE: 8/02/2013

Drayton Neighbourhood Development Plan

Recommendation

Cabinet is recommended to designate the parish of Drayton (Appendix 1) as a neighbourhood plan area under Section 61G of the Town and Country Planning Act 1990.

Purpose of Report

1. This report seeks Cabinet approval for the designation of Drayton Parish as a neighbourhood area for the purpose of the production of a neighbourhood plan within the remit of the Localism Act 2011.

Strategic Objectives

2. This will contribute towards the following strategic objectives in the corporate plan

- a strong local economy
- positive and constructive work with community groups
- housing for people who need it
- communities involved in decisions about development and other things affecting their local area.

Background

3. Neighbourhood planning is part of the Government's initiative to empower local communities to take forward planning proposals at a local level. This is outlined in Section 116 of the Localism Act.

4. The Localism Act states that neighbourhood plans must be in 'general conformity with the strategic policies in the local development plan'. In our case this will be the existing Local Plan 2011 should the Neighbourhood Development Plan come forward before the adoption of the Local Plan 2029 Part 1: Strategic Sites and Policies. If this is the case it will also be important to ensure that the neighbourhood plan is in general conformity with the emerging Local Plan 2029 Part 1 to avoid it becoming out of date following the adoption of the updated local plan.

5. Neighbourhood plans will form part of the main policy documents for designated areas in addition to the local plan and may allocate sites for development and set local policies.

6. Section 61H of the Town and Country Planning Act as amended requires that we consider whether the neighbourhood area should be designated as a business area, this is defined as an area where the area is primarily or wholly business in nature. This is not the case for the proposed Drayton neighbourhood area although business uses do exist within it.

Neighbourhood areas and relevant bodies

7. The Neighbourhood Planning Regulations came into force on 6 April 2012. These regulations indicate that applications for neighbourhood areas should be published and that the application should specify how the organisation submitting it is a relevant body for the neighbourhood area.

8. Drayton Parish Council has defined its neighbourhood area as the whole of the Drayton Parish administrative area (Appendix 1).

9. The regulations require councils to publicise any applications received for the designation of a neighbourhood area. Paragraph 6 of the Neighbourhood Planning (General) Regulations 2012 sets out these requirements, which have been followed. In terms of publicity we placed advertisements in newspapers, published articles in local newsletters, put information on the council website and parish notice boards and wrote to all stakeholders on Drayton Parish Council's consultee list and those relevant to Drayton on our own consultation database, including the neighbouring parishes.

10. We had a total of six responses to the consultation. No objections or significant issues were raised. The key statutory bodies requested that they were consulted as part of the plan preparation process. A summary of the comments is included at Appendix 2.

Options

11. There are no reasonable alternative options for consideration in this case.

Financial Implications

12. There will be financial implications in funding further public notices, the examination and referendum for each of the Neighbourhood Development Plans, and in staff time.

13. Initial investigation of potential main external costs gives the following estimates

- Examination - The 'Localism Bill: neighbourhood plans and community right to build Impact assessment' (DCLG, January 2011) estimated the examination costs for a neighbourhood plan at between £5,000 and £8,000.

- Referendum – CLG have indicated that referendums will cost £1.80 per head of population[1]. However, the Vale Elections Team has estimated the cost of conducting a referendum would be more in the region of £1 per head. Based on these assumptions the cost for Drayton would be between £2,200 and £4,000.

- Publication expenses – There are three formal stages of preparing a neighbourhood plan where the local authority should publicise material relating to the plan. These are the inception (initial plan proposal); the submission (plan proposal for examination); and adoption (the decision notice and final plan). All three stages are estimated to cost in total £3,000.

- Any neighbourhood plans adopted after the Local Plan 2029 Part 1 is published would necessitate an update to the Local Plan Adopted Policies Map, including printing and re-distributing hard copies (estimated cost £5,000).

Legal Implications

14. There are no legal implications of significance

Risks

15. No significant risks to report, not already addressed in the main body of the report.

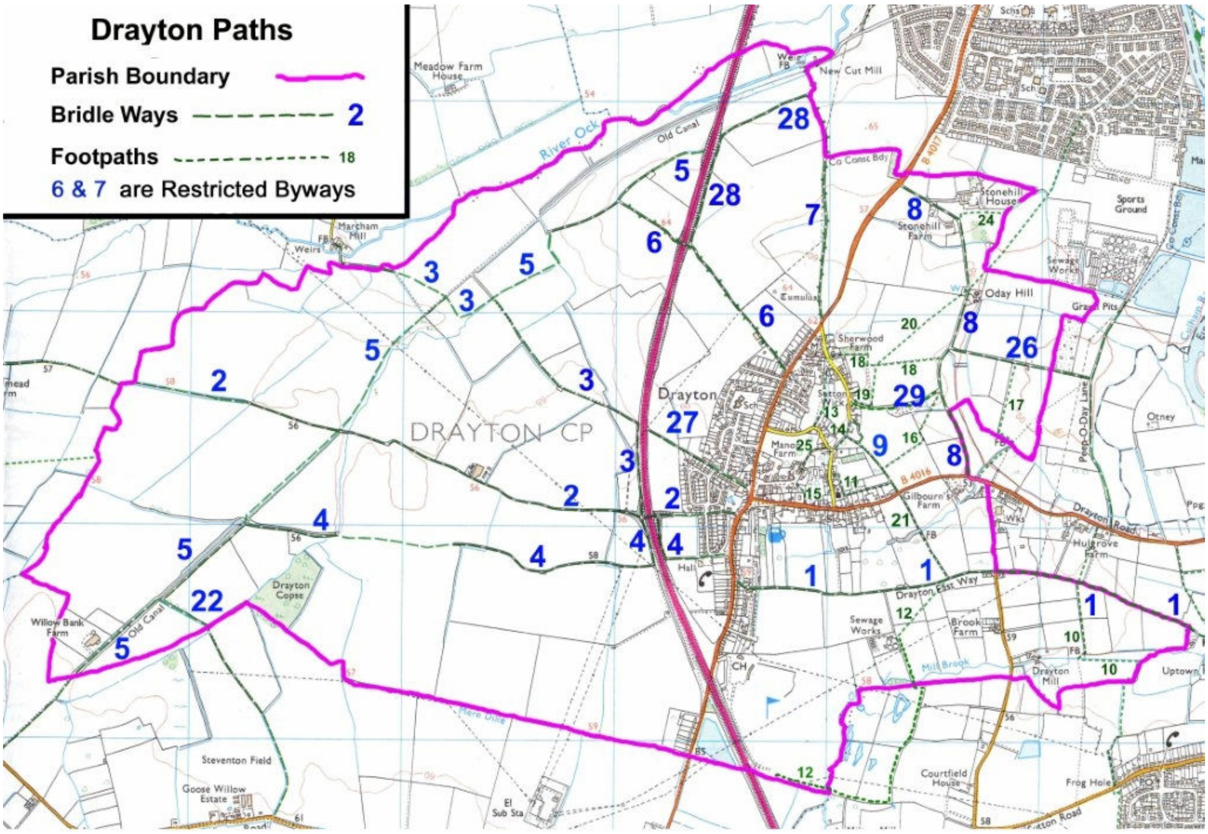
Conclusion

16. I recommend that the neighbourhood area identified at Appendix 1 is agreed.

- Appendix 1: Map of Drayton parish
- Appendix 2: Summary of consultation responses

[1] Communities and Local Government (2012). Localism Act: Neighbourhood Planning and Community Right to Build: Impact Assessment.

Appendix 1 – Map of Drayton parish



Appendix 2: Summary of consultation responses

Organisation	**Summary of response**
Highways Agency	No comment
The Coal Authority	No comment to the designation of the area. Future development proposals will not need to consider unstable land arising from former coal mining.
Network Rail	No comment
English Heritage	No objections but would like to continue to be involved to offer advice and guidance where relevant.
Environment Agency	No objections but would like to continue to be involved at an early stage in the plan preparation process.
Natural England	Acknowledgement.