ITEM 4

FINANCIAL STRATEGY 2012/13

Report By Chief Financial Officer

SCOTTISH BORDERS COUNCIL

9 February 2012

1 PURPOSE AND SUMMARY

1.1 **This report seeks approval for the financial strategy for the Council covering the period 2012/13 – 2014/15.**

1.2 The Council aims to provide the best possible services within the resources available.

This requires a financial strategy which:-

a) raises the funds required by the Council to meet approved service levels in the most effective manner;

b) manages the effective deployment of those funds in line with the Council's corporate objectives and approved service plans.

This strategy addresses a number of important issues which must be considered in setting the budget for the coming year. The strategy adopts a revised approach to setting council balances based on a new financial risk register.

2 RECOMMENDATIONS

2.1 **It is recommended that Council approves the financial strategy for 2012/13 – 2014/15 as set out in this report including the reserves strategy and level of balances for 2012/13 detailed in section 3.6.**

3 Financial Strategy 2012/13- 2014/15

3.1 Introduction

The financial strategy set out in this paper recognises the continuing difficult economic outlook and the need for tight fiscal constraint for the foreseeable future. The strategy recognises the Council's duty to set a prudent, sustainable budget, to protect council tax payers and ensure service charges remain as affordable as possible for residents of the Scottish Borders.

The high level financial strategy to be followed over the next three years is therefore to:-

- Freeze council tax in each year of the current 3 year settlement.
- Set a prudent, sustainable budget in line with available <u>recurrent</u> resources.
- Invest in infrastructure through a sustainable capital programme financed by £21.3m loans charges per annum.
- Maintain unallocated reserves of £6.9m for 2012/13 in line with the assessed risk register.
- Maximise income while keeping fees charged to service users at an affordable level.
- Continue to invest in business transformation and efficiency projects to deliver long term financial savings and service benefits.

It is recognised that elected Members may wish to re-examine the Council's priorities following the elections in May 2012. This high level strategy aims to set a framework for the prudent financial management of the Authority over the next three years within which such a review can if necessary take place.

The development of a new longer term financial plan, aligned to Council priorities, early in the new administration will further assist the Council manage its finances as effectively as possible.

3.2 Aggregate External Finance

It is assumed the full level of AEF, estimated at £213.869m excluding specific grants, will be deployed in setting the 2012/13 revenue budget. **This level of funding is conditional upon council tax being frozen at 2007/08 levels during each of the three years of the current spending review.**

3.3 Council Tax

The financial strategy assumes that Council will approve a freeze in the council tax, setting band D equivalent of £1,084 for each of the next three years. All other council tax bands vary as a set proportion of the band D figure. The Scottish Borders tax product following a review of the properties, collection rates and levels of bad debt provision is estimated as £50.326m in 2012/13.

3.4 Council Tax – 2nd Homes

Council has a policy of applying a 10% discount to long trem empty dwellings and 2nd homes which is the minimum discount allowable under the Council Tax (Discount for Unoccupied Dwellings) (Scotland) regulations 2005. This provides £0.715m per annum for affordable housing in the Scottish Borders. The Government are currently consulting on potential changes to these regulations; however, pending any changes the SBC financial strategy in this area should continue as at present.

3.5 Bad Debts

Income collection, including council tax, may be adversely affected by the difficult economic conditions The budget assumes that the bad debt provision be set at £0.125m for sundry debt and £715k for council tax for 2012/13 and this will be kept under review over the three year period.

3.6 Reserves

The Council maintains a number of funds and balances which are reported to elected members at regular intervals during the financial year. Table 2 overleaf shows the actual audited balance at April 2011 and projected balance on each fund at 1 April 2012.

	1 April 2011	**1 April 2012**
	(Actual)	**(Estimated)**
	£'000	**£'000**
Statutory Funds		
Corporate Property Repairs and Renewals Fund	175	175
Plant and Vehicles Renewals Fund	2,860	2,511
Insurance Fund	1,507	1,483
General Fund – Earmarked		
Devolved School Management	1,198	639
Affordable Housing from 2nd Homes Council Tax Discount	1,589	1,214
Specific Departmental Reserves	1,820	571
General Fund – Non-Earmarked	6,868	6,985

The Council holds reserves in order to manage identified risks, smooth uneven cash flows and provide a contingency against unforeseen circumstances. The existence and management of reserves is a fundamental aspect of any sound financial strategy. The financial strategy and the associated reserves position will be subject to scrutiny by the Council auditors and other external agencies.

The Council has previously adopted a policy of holding general fund unallocated balances of between 2% - 4% of net expenditure. This policy has however previously been largely un-tested against the range of risks facing the organisation. In order to more accurately establish the level of balances which should be held, a review of risks facing the Council has been undertaken by senior finance officers as shown in the risk register in appendix 1.

Following this exercise the level of un-allocated general fund balances is now directly informed by an assessment of the risks facing the Council.

This risk assessment has considered issues including the failure by managers to enact effective budgetary control, severe winter weather, the economic downturn, potential contractual claims, and unplanned emergencies e.g. flooding.

This new risk register it is considered better reflects the risks inherent in setting the revenue budget, the reasons why reserves are held in the first place, the scale and complexity of the organisation and also provides greater transparency with regard to the level of balances held.

It is proposed that the Council adopt the risk register shown in appendix 1 as the basis for setting reserve levels in 2012/13. The risk register underpinning general fund reserves will hence forth be reviewed periodically and as part of the budget setting process and any reduction in the level of perceived risk will result in proposals to return balances to fund service expenditure. Conversely, should the level of risk increase, Council will be asked to increase the balances held commensurate with managing these risks.

The useable (i.e. non-earmarked) General Fund Reserve is projected to be at **£6.9m** at 1 April 2012 and this is the level of balances Council are recommended to maintain in financial year 2012/13.

3.7 Treasury Management Strategy

This forms a key aspect of the Council's overall financial management strategy and in line with best practice. The Treasury Management Strategy for 2012/13 is submitted elsewhere on the agenda for approval.

3.8 Capital Investment

The 10 year capital plan and an accompanying report are also submitted elsewhere on the agenda. The financial strategy aims to ensure capital borrowing is within prudential borrowing limits and sustainable in the longer term. In this regard it is important to recognise the capital investment decisions taken now have long term borrowing implications which have the potential to place an undue burden on future tax payers. The draft revenue budget sets loans charges associated with capital borrowing over the next 3 years at £21.3m per annum. This will be kept under review in light of the prevailing economic conditions, opportunities for debt re-structuring and the priorities of the next Administration. The Council has significant revenue resources tied up in capital assets and work will continue within the financial strategy to identify surplus property for disposal in order to reduce revenue running costs and deliver capital receipts.

3.9 Staffing

Pay and associated on-costs represent the largest single element of the council expenditure. The current pay freeze approved by the Council will continue until April 2013. Thereafter, the government has signalled a desire to see public sector pay controlled tightly and consequently is likely to only support modest increases. These are estimated for budgetary purposes at 2% in 2014/15 and 2015/16 and this may reduce further.

The present increment freeze will end in November 2013 and accordingly part year provision has been required in the revenue budget for this item from that date.

The ability to right size the Council's work force in response to continuing financial pressures remains a key tool in mitigating future cost pressures and this strategy, assisted by provision for voluntary severance, should continue. Provision of £1.07m exists in the revenue budget 2012/13 to assist with this policy.

3.10 Local Government Pension Fund

The Council's actuary Barnett Waddingham has now completed the triennial review of pension fund liabilities. This indicates that, based on investment performance, the demographic structure of the fund, changes to retirement ages and the recent move from RPI to CPI, the funding level of the Borders Pension scheme is now 95%, a small reduction from the 97% funding level at the 2008 revaluation. A recovery plan is in place and this shows a period of 13 -14 years will be required to bridge the current funding deficit. This is based on the current recommended 18% employer contribution rate continuing for the next three years.

3.11 Inflation on non pay items

A range of inflationary provision has been made on non pay items and this will be the subject to ongoing scrutiny within the budget process. It is evident that the continuing increasing levels of non pay inflation will require additional resources which will create pressure in future revenue budgets. This will increase the need for future efficiency savings and how we manage inflation requires to be revisited in future updates of this strategy.

3.12 Overall approach to cost reduction and service reviews

It is evident that the Council faces ongoing cost pressures in its revenue budget and this will require a robust financial strategy, an innovative approach to business transformation and change management and an ongoing drive to improve efficiency.

The wider economic outlook, with largely flat cash AEF funding from central government, an ongoing council tax freeze and a range of demographic, environmental, inflationary and other service pressures mean that significant savings will be required year on year to ensure the council balances its books.

In setting future year's revenue budgets these factors lead to the conclusion that net savings year on year of around 2% will require to be found from departments to balance the budget and resource council priorities. This will be a central theme of a new longer term financial plan for the Council.

At present the revenue budget contains provision for a Change Fund of £0.984m based on a 2.6% share of national totals. It is proposed that this provision, if it is not finally required when confirmation of the funding expectations around change funds is intimated by the Government, should be deployed to establish an "efficiency fund." This fund would advance funding to elected Member approved projects and be repaid by service departments through sustainable cash releasing budget savings in line with an agreed repayment profile.

4 IMPLICATIONS

4.1 Financial

There are no additional financial implications associated with this report its content referring specifically to the financial strategy of the Council and the associated revenue and capital budgets.

4.2 Risk and Mitigations

(a) The existence of appropriate balances is a fundamental aspect of sound governance and effective stewardship. There is therefore a risk to the Council from not having an appropriate financial strategy underpinned by cash backed reserves which will be mitigated by approval of this report.

(b) If the identified risks were to materialise, without an appropriate level of reserves, Council would be required to identify alternative funding, possibly at short notice, through reduced services, asset disposals, increased charges or additional unbudgeted borrowing.

4.3 Equalities

There are no adverse equality implications arising from this report.

4.4 Acting Sustainably

There are no economic, social or environmental effects arising directly from this report.

4.5 Carbon Management

There are no effects on carbon emissions.

4.6 Rural Proofing

There are no implications that would compromise the Council's rural proofing policy.

4.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes required to either the Scheme of Administration or the Scheme of Delegation

5 CONSULTATION

5.1 The Head of Legal and Democratic Services, the Head of Audit and Risk and the Clerk to the Council have been consulted in the preparation of this report.

Approved by

David Robertson
Chief Financial Officer

Author

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Background Papers:
Previous Minute Reference: Council Report 24 November 2011

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Finance can also give information on other language translations as well as providing additional copies.

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Risk Register: Financial Strategy 2012/13 APPENDIX

No.	Risk Category	RISK *Threat to achievement of business objective*	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) *Assume No Controls in Place*			Risk Control Measures in Place	Are all Controls Operational?	Potential Financial Risk	Assessment of Residual Risk (likelihood x impact) With Control Measures		
				Likelihood	Impact	Risk Score				Likelihood	Impact	Risk Score
								Y / N / Partial	£			
1		Welfare Reform Bill	£8m-12m decrease in income to Borders residents - greater demand for services, risks associated with 10% reduction in funding for the alternative to council tax benefit.	5	3	15	Restructure service provision. Existing debt collection processes	Y	600,000 (based on 10% loss of £6m C Tax benefit and Admin fee.)	5	3	15
2		Global economic downturn - negative growth	Less funding from Government to Council, greater demand for services, less money in local economy	4	3	12	Business and medium term Revenue Financial Plans (as opposed to current 1 year revenue plan)	Partial	2,600,000 (based on 1% of net revenue budget)	4	3	12
3		Reduction in Government funding to Local Authorities	Less funding from Government, reduction in ability to provide services, take on of other agencies' responsibilities	3	3	9	Business and medium term Revenue Financial Plans (as opposed to current 1 year revenue plan)	Partial	part of figure above	3	3	9
4		Inability to increase local funding because of Council Tax freeze	Adverse effect on ability to raise income and therefore provide services	2	3	6	Business and medium term Revenue Financial Plans	Partial	Compensation in Settlement	2	3	6
5		Continually depressed housing market	Assumption re Developer Contributions prove too optimistic. Funding shortfall for railway, PPP schools etc	4	3	12	Budget adjustment to take account of potential shortfall, diverting resources from other priorities	Y	TBA	4	2	8

Risk Register: Financial Strategy 2012/13 APPENDIX

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				Likelihood	Impact	Risk Score		Y / N / Partial	£	Likelihood	Impact	Risk Score
6		Weather - adverse winter conditions	Strain on Winter Maintenance budget. Additional revenue and capital costs	4	4	16	Bellwin Scheme, but only at significantly high levels and within certain criteria. Reserve of £565k earmarked and extra budget identified for Roads. Community Resilience Scheme	Y	1,000,000 (general estimate)	4	3	12
7		Weather - severe floods	Additional revenue and capital costs	3	4	12	Bellwin Scheme, but only at significantly high levels and within certain criteria. Capital provision for Selkirk and Gala with proposal for major SG funding	Y	part of figure above	3	3	9
8		Inability to achieve projected savings from Business Transformation e.g.E&I restructure	Increased costs due to budget not being met, reduced service provision as a consequence	4	3	12	Tracking through monitoring process. Need to develop Benefits Realisation model	Partial	250,000 (general estimate)	3	3	9
9		Future demographics - Social Work. Ageing population, more children with complex needs	Additional revenue and capital costs	5	3	15	Business and medium term Revenue Financial Plans aligned to demographic pressures. Capital Plan.	Partial	Currently covered in budget	5	2	10
10		Future demographics - Education. Increase in projected pupil roll numbers	Additional revenue and capital costs	5	3	15	Business and medium term Revenue Financial Plans aligned to demographic pressures. Capital Plan.	Partial	part of figure above	5	2	10
11		Loss of corporate financial systems providers	Unsupported system(s), no opportunity for development	3	2	6	Ability to continue unsupported, networks of other Councils in same position	Y	0	3	2	6

Risk Register: Financial Strategy 2012/13

APPENDIX

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12		Major contractors / providers of completed schemes going out of business (e.g. PPP scheme)	No service provider for duration of contract	2	2	4	Alternative provider sought, provide service in-house	Y	0	2	2	4
13		Major contractors / providers of essential services going out of business	Immediate pressure on revenue budgets / reserves	3	3	9	In some cases monthly contract monitoring and ongoing liaison. More due diligence required during and before contract periods	Partial	100,000 (short term fix)	3	3	9
14		Pension Fund - increase in employer contributions	Increased costs to the Council through increased employer contributions and impact on service budgets	4	4	16	Triennial Valuation with options to deal with projected funding deficit through recovery period and / or medium term Revenue Financial Plan	Y	0 (based on BW report Dec 11)	3	3	9
15		Pension Fund - Admitted Bodies unable / unwilling to fund past service deficit	Call on Council indemnity for past service costs	3	2	6	Quantifiable risk with options for dealing with financial consequences	Y	700,000	3	2	6
16		Changes in regulations re Contracting Out of NI contributions	Rate increase from 7.2% to 10.9% with cost to Council of £3m in future financial year	3	3	9	Quantifiable risk with options for dealing with financial consequences through medium term Revenue Financial Plan	Y	1,000,000 (33% likelihood)	3	3	9
17		Counterparty risk	Funds deposited in banks are lost	3	3	9	Disciplined maintenance of counterparty list, spread deposits where practicable. Strategy & Policy in place, daily information from Sector	Y	0	3	2	6

Risk Register: Financial Strategy 2012/13

APPENDIX

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18		Increase in scale of bad debts owed to the Council (AR, Council Tax, NDR)	Further pressure on revenue budgets as greater amounts need to be written off	4	3	12	Bad Debt provision in place, proved adequate for C/Tax and NDR historically	Y	250,000 (based on AR risk)	3	3	9
19		On-lending to RSLs / via NHT	Risk of failure of provider putting loan at risk	2	3	6	Security over loans, due diligence on RSLs, regular liaison	Y	200,000 (20% risk on £1m)	2	2	4
20		Change to taxation base e.g. NDR income lies with collecting Authority and not part of national pool	Reduced level of NDR income for Council with subsequent pressure on revenue budgets	2	2	4	3 year spending review, medium term Revenue Financial Plan	Partial	Not yet quantified	1	2	2
21		Failure of budgetary control processes (increased likelihood as budgets are stretched)	Unexpected overspends in revenue and / or capital budgets	4	3	12	Monitoring processes, both internal and reporting to Members	Y	1,300,000 (0.5% overspend risk on £260m)	3	2	6
22		Major Contractual claim	Litigation from contractor following failure of Council to enact obligations under a strategic contract eg PPP works compensation event	4	3	12	Monitoring processes, both internal and reporting to Members	Y	220,000 (25% likelihood)	3	3	9
									8,220,000			

GENERAL FUND REVENUE RESOURCES AND COUNCIL TAX 2012/13

ITEM 5

Report By CHIEF FINANCIAL OFFICER

SCOTTISH BORDERS COUNCIL

9 FEBRUARY 2012

1 PURPOSE

1.1 The purpose of this report is to advise Council of the estimated General Fund revenue resources available for financial years 2012/13 – 2014/15.

1.2 The report also outlines the process supporting the construction of the draft revenue budget 2012/13 – 2014/15.

1.3 The financial constraints and major risks to be addressed are identified.

1.4 A decision is sought with regard to the level of Council Tax to be levied for 2012/13.

2 RECOMMENDATIONS

2.1 It is recommended that the Council:-

(a) notes the estimated revenue resources for 2012/13 to 2014/15;

(b) proceeds to approve the Administration's budget proposals as set out elsewhere on the agenda;

(c) approves a Band D council tax of £1,084 for financial year 2012/13, freezing the council tax at 2007/08 levels for fifth successive year;

(d) determines the council taxes to be paid for 2012/13 in respect of chargeable dwellings as set out in appendix 1 to this report.

3 MAIN REPORT

3.1 The local government finance settlement (the settlement) was published on 8 December 2011 and updated on 22 December. The settlement confirmed resources from central government of £213.869m. Assuming that Council Tax is frozen again at 2007/08 levels, the total revenue resources available to the Council for 2012/13 are shown in table 1 below totalling £264.195m excluding specific grants.

Table 1 Assessment of Available Resources 2012/13 – 2014/15

AEF (Excluding Specific Grants)	£'000	£'000	£'000
Revenue Support Grant	187,380	185,666	182,632
Non Domestic Rates	26,489	28,503	31,183
	213,869	214,169	213,815
Council Tax	50,326	50,226	50,126
Total	**264,195**	**264,395**	**263,941**

THE AEF SETTLEMENT 2012/13

3.2 Mainstream support for local government from the Scottish Government is collectively known as Aggregate External Finance (AEF) and comprises:-

- General Revenue Funding to support expenditure on the complete range of Council Services
- A distribution of funding from the National Non-Domestic Rates Pool
- Ring-fenced grants which authorities must use for specified purposes
- Council Tax freeze funding which will only be distributed if a Council freezes its Council Tax at 2007/08 levels and meets all the conditions of the Scottish Government settlement. The estimated level of council tax collectable next year has been revised to £50.326m in financial year 2012/13 as shown in table 1 above. This estimate is based on the numbers of chargeable dwellings, applicable discounts, and anticipated levels of bad debt and collection rates.

3.3 There are three conditions specified by the Government which must be agreed by Scottish Local Authorities in order to access the full level of AEF per the settlement. In addition to the pursuit of joint priorities set out in the local outcome agreement the Council is required to:-

a) maintain a council tax freeze in each of the three years of the spending review;

b) maintain teacher numbers in line with pupil numbers, securing places for all probationers who require one under the teacher induction scheme;

c) pass on the full share of funding to police boards in line with the previously agreed level for 2011/12.

3.4 Overall resources from central government reflect a decrease of £0.97m (0.45%) compared to 2011/12 comparable totals. The offer of funding contained in finance circular 11/2011 is provisional at this stage pending approval of the government's forth-coming budget bill and the publication of the final 2012 circular.

3.5 Members will recall that all departments in planning for the 2012/13 budget were required to identify saving of 2%. This has created significant headroom of £1.913m, for elected member priorities. This funding has been made available and applied accordingly within the Administration's budget proposals for 2012/13.

AEF ESTIMATES 2013/14 and 2014/15

3.6 Provisional figures for AEF beyond 2012/13 have also been provided in the settlement. These indicate a small increase in total resources from Central government to Scottish Borders Council of £214.169m in 2013/14 falling back to £213.815m in 2014/15. These largely "flat cash" figures however mask the overall reduction in revenue support grant from central government over this period offset by an increasing reliance on Non Domestic Rate Income as source of funding. By 2014/15 non domestic rate income will comprise approximately 14.6% of government funding excluding ring fenced grants compared to 12.3% in 2012/13.

THE FINANCIAL PLANNING PROCESS 2012/13 TO 2014/15

3.7 The financial planning process for the next three years commenced in April 2011. The Administration has indicated that it fully supports the strategy of three year financial planning particularly given the increasingly challenging financial outlook and the lead-in times associated with the delivery of savings. The financial strategy underpinning the budget, which is submitted for approval elsewhere on the Council agenda, therefore covers a three year timeframe and will be used to inform the development of medium term revenue planning for the Council early in the new administration. Members should note that the revenue budget, submitted for approval elsewhere on the agenda, is balanced in financial year 2012/13 but that a gap remains, based on provisional planning assumptions of £2.192m and £9.024m in 2013/14 and 2014/15 respectively. To help bridge this gap preparatory work has commenced on a number of service reviews and business transformation projects, supported by funding in 2012/13. These reviews include passenger transport, property, and corporate ICT; however, the status of this work means it is not appropriate at this juncture to factor these savings into future year's budgets.

3.8 As noted in paragraph 3.5 in developing the 2012/13 budget council adopted a planning assumption based upon a 2% reduction in resources next year.

3.9 The 2% assumption was made in the context of:-

- The need for the council to continue its business transformation programmes, to modernise its structure and adopt new more effective models of service delivery;

- The need to deliver on going efficiency savings to fund budget pressures and to invest in spend to save projects which will permanently change the way the council delivers services and provide sustainable cashable benefits;

- Rising public expectations with regard to the breadth and quality of public service provided by the council;

- A range of demographic pressures particularly associated with services to the very young, the very old and vulnerable children;

- The need to continue investing in the core infrastructure of the Borders; and,

- Continued economic uncertainty with a consequent impact on benefits and the Local Government Pension Scheme through investment returns.

3.10 In recognition of the scale of the financial challenge facing the Council, not only next year but on a continuing basis thereafter, Members proactively agreed to approve early net revenue efficiency savings of £0.898k brought forward by the Administration on the 24 November 2011 providing a sound platform to deliver the remainder of the revenue budget.

THE RESOURCE ALLOCATION PROCESS

3.11 Before allocating available resources to Departments, as in previous years a number of non-Service specific items of expenditure were "top-sliced";

- Loan Charges.

- Police and Fire & Rescue Board requisitions to meet 49% funding requirement.

- Bad debt provisions, Corporate Property Repairs and Renewals Fund and Winter Service contributions.

- Members' remuneration and expenses.

- Audit fees.

- The net cost of discretionary rates relief not funded by the national non-domestic rates pool.

- Contributions to new-build affordable housing funded through reducing the second homes Council Tax discount.

3.12 In determining each Department's resource allocation for 2012/13 account was taken of:-

- relative shares of 2011/12 resources;

- inflation on the following non-pay items:-

  (a) rents payable
  (b) rates
  (c) water charges

(d) insurances
(e) property repairs and maintenance
(f) energy
(g) residential placements
(h) landfill tax
(i) trading operations charges
(j) transport;

- service specific inflation significantly above predicted inflation rates;
- additional commitments as identified in the Scottish Government's manifesto;
- exceptional items;
- the Administration's spending priorities;
- contributions to change funds assumed at 2.26%.

3.13 In determining provisional budgets for 2012/13, account has also been taken of:-

- the ongoing pay award and increment freeze in 2012/13;
- the full-year effect of previously approved service developments and rationalisation and efficiency measures approved in 2011/12;
- the revenue consequences of the proposed capital programme over the three year period to 2014/15;
- Council Tax levels, the recommend level of Reserves, the approach to Winter Maintenance and Corporate Property Repairs & Renewal Fund contributions set out in the Financial Strategy 2012/13 to 2014/15 submitted elsewhere on the Council agenda.

COUNCIL TAX

3.14 The aspiration of the Scottish Government to have Council Tax levels frozen at 2007/08 is to continue for a fifth year. A decision by elected members to vary the council tax beyond the rates set in 2007/08 will result in resources being withdrawn by central government. The potential "claw-back" from Scottish Borders Council in this eventuality is detailed in the settlement at £1.529m per annum. This would be equivalent to 3% on the council tax.

3.15 The Council is required under legislation to approve its council tax for the following financial year commencing 1 April by the 11 March in the preceding financial year.

4.1 FINANCIAL IMPLICATIONS

There are no additional financial implications associated with this report, its content referring specifically to the revenue budget.

4.2 RISK AND MITIGATION

a) The Council faces a number of risks in setting its budget for 2012/13. The main identified risks are as set out in the Financial Strategy.

b) There is an ongoing requirement for robust management action to deliver the savings set out in the budget on time and to the levels expected by the approved budget. The failure to deliver savings in line with the budget plan represents a significant risk to the council.

c) If a Band D Council Tax of less than £1,084 is set, revenue resources would be insufficient to meet planned expenditure, unless expenditure plans were correspondingly modified.

d) If a Band D Council Tax above £1,084 is set, AEF from the Scottish Government will be reduced by up to £1.529m per annum.

4.3 EQUALITIES

An equalities impact assessment has been undertaken with regard to individual budget proposals, where issues have been identified mitigating actions will be put in place. There are no further equalities impacts arising from this specific report

4.4 ACTING SUSTAINABLY

The revenue budget will affect the people and economy of the borders it has been designed to be as financially, socially and environmentally sustainable as possible.

4.5 CARBON MANAGEMENT

There are no effects on carbon emissions.

4.6 RURAL PROOFING

This report contains no implications that will compromise the Council's rural proofing strategy.

4.7 CHANGES TO THE SCHEME OF ADMINISTRATION OR SCHEME OF DELEGATION

There are no changes required to either the scheme of administration or the scheme of delegation.

5 CONSULTATION

5.1 The Head of Legal and Democratic Services and the Head of Audit & Risk have been consulted and any comments received have been incorporated.

Approved by

Name	Designation	Signature
David Robertson	Chief Financial Officer	

Author(s)

Name	Designation
David Robertson	Chief Financial Officer

Background Papers:
Previous Minute Reference: Council Report 24 November 2011

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Appendix 1

Council Tax levels 2011/12

Band	Proportion of Band D Tax	£
A	6/9	722.67
B	7/9	843.11
C	8/9	963.56
D	**9/9**	**1,084.00**
E	11/9	1,324.89
F	13/9	1,565.78
G	15/9	1,806.67
H	18/9	2,168.00

Scottish Borders Council

Item 6

Our Vision
We seek the best quality of life for all the people in the Scottish Borders, prosperity for our businesses and the promotion of health, happiness and confidence in all our communities

Our Values
Public service Respect for all Courage Integrity Honesty Commitment

Our Standards
Putting **people** at the heart of what we do Being **fair**, **equal** and **open** Continually **improving** our services Working with **partners** and **stakeholders** Delivering **value for money** in the use of our resources

Building a Better Borders

Administration's Revenue Financial Plan 2012/13 – 2014/15

Scottish Borders COUNCIL

Scottish Borders Council

Revenue Financial Plan 2012/13 to 2014/15

Estimated Revenue Resources

	2012/13 **£'000**	**2013/14** **(Provisional)** **£'000**	**2014/15** **(Provisional)** **£'000**
Aggregate External Finance (1)			
General Revenue Support (2)	187,380	185,666	182,632
Non-domestic rates (distribution from national pool)	26,489	28,503	31,183
	213,869	214,169	213,815
Council Tax (Band D £1,084 - no increase)	50,326	50,226	50,126
Total	**264,195**	**264,395**	**263,941**

Notes:
1. Funding from Scottish Government **excludes** ring-fenced grants (the budgets which follow are net of such grants).
2. As the Scottish Government has announced provisional AEF for 2013/14 and 2014/15.

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Summary

Department	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Chief Executive	1,368	Details on following pages	1,277	1,314
Resources	19,316		19,785	20,673
Education & Lifelong Learning	94,182		95,965	98,367
Social Work	75,625		76,403	77,819
Environment & Infrastructure	31,288		32,272	33,907
Other	42,416		40,885	40,885
Total	264,195		266,587	272,965

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Chief Executive's Department

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Chief Executive	657	The Chief Executive's office provides effective strategic leadership of the Council, ensuring the effective implementation of policies, service delivery and emergency planning.	547	558
Assessor & Electoral Registration Officer	711	The Assessor and Electoral Registration Officer is a statutory official whose duty is to compile and maintain the Valuation Roll, the Council Tax valuation list and the Register of Electors. He is appointed by the Council and supported by a staff of 19.4 FTEs.	730	756
Total	**1,368**		**1,277**	**1,314**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Chief Executive Department

		Proposed 2012/13		Provisional 2013/14		Provisional 2014/15	
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2012/13 Provisional Budget (approved February 2011) (Note 1)			4,182		1,368		1,277
Add/Deduct	Permanent virements (Note 4)		(2,868)		1		0
	Manpower adjustments (Note 2)		(46)		28		37
	Non-pay inflation including service specific (note 3)		0		0		0
	Service developments						
	Demographic and other service pressures	139		(120)		0	
	Priority service developments	0		0		0	
			139		(120)		0
Deduct:	Efficiencies in service delivery and resource utilisation	(39)		0		0	
	Increased charges/income	0		0		0	
	Service rationalisations	0		0		0	
			(39)		0		0
Base budget			**1,368**		**1,277**		**1,314**

Notes
1. For 2012/13, this is the 2012/13 provisional budget approved on 11 February 2011. The starting position for the 2013/14 and 2014/15 provisional budgets is the adjusted base budget for the previous year.

2. Manpower adjustments reflect any changes in the establishment from when the 2012/13 provisional budget was approved in February 2011 and includes pay awards, increments and associated employer's NI and pension contribution increase.

3. Non-pay inflation reflects adjustments to the provisional budget set for 2012/13 agreed in February 2011. The inflation for 2013/14 and 2014/15 reflects the most up to date inflationary forecast.

4. Permanent virements reflect the permanent budget changes between departments during 2011/12. The full year effect of savings and pressures for 2011/12 are included in the provisional budget for 2012/13 agreed in February 2011.

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Demographic and other service pressures							
Service							
Department wide	478	139	19	19	0		Demographic and other service pressures approved by Council on 24 November 2011.
		139	19	19	0.00		
Incremental Increase		139	(120)	0			
Priority Service Developments							
Service							
		0	0	0	0.00		
Incremental Increase		0	0	0			
		139	19	19	0.00		
Incremental Increase		**139**	**(120)**	**0**			

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Chief Executive	478	(10)	(10)	(10)		15_1	Savings from Emergency Planning service review.
Department wide	749	(29)	(29)	(29)	1.00		Efficiencies approved by Council on 24 November 2011.
		(39)	(39)	(39)	1.00		
Incremental Reduction		**(39)**	**0**	**0**			

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Resources Department

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Directorate and Business Support	409	Providing strategic management, business, administration and secretarial support across the Department.	418	433
Finance				
Gross expenditure	3,135	The Finance Service provides strategic and operational financial management support to both the corporate body of the Council and its component services including treasury and pensions management, financial planning, management reporting, accounting and support and the provision of financial information systems to the Council and its services.	3,146	3,241
Income	(80)		(80)	(80)
	3,055		3,066	3,161
Procurement	535	Providing an internal service across all council departments in line with the Corporate Procurement Strategy and policy.	551	578
Customer Services				
Gross expenditure	4,082	Customer Services provides an integrated first point of contact to the Council's customers. The range of services provided include revenue collection, council tax, non domestic rates, benefits administration, financial assessments, the registration service and general customer services provided through a network of contact centres (face to face) and the call centre (telephony). The HR Shared Service team provides a first point of contact for internal customers for payroll and pension services.	4,126	4,254
Income	(2,040)		(2,040)	(2,040)
	2,042		2,086	2,214

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Resources Department

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Audit & Risk Management	883	Provision of specialist compliance and assurance support and advisory services of internal audit, counter fraud, risk management, business continuity management, insurance, and wellbeing and safety, that are designed to assist the Council in discharging its responsibilities and accomplishing its objectives by bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance and to ensure compliance with legislation.	902	942
Human Resources	1,391	Providing a range of HR and Workforce Planning and Development services to all Council departments, including professional advice and support, organisation and personal development and change management. The HR service is dealing with a significantly growing workload particularly in the areas of transformation and change management, disciplinary cases, capability cases and employee relations matters. There is also significant resource dedicated to the re structure and overall modernisation of the services delivered.	1,416	1,452
Legal & Democratic Services				
Gross expenditure	2,483	The Service provides an extensive range of Legal & Democratic Services, including Conveyancing, Litigation, Licensing, Contracts, Legal Advice, Scrutiny, Committee Management, Members Support, Elections Management and legal services for Common Good Funds across the Scottish Borders.	2,590	2,667
Income	(457)		(458)	(458)
	2,026		2,132	2,209

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Resources Department

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Business Solutions	6,538	Supplies Business Change Management and Support, ICT Infrastructure, Support Services, Information Management and Data Compliance to SBC HQ, area offices, schools, depots and other locations throughout the Scottish Borders area. The service provides office based and mobile ICT equipment, servers, the local and wide area network for data and voice, ICT security, provision of business applications, electronic service delivery infrastructure, ICT disaster recovery, records management, data protection, freedom of information, research and information, business partnership, business analysis and management and support of programmes and projects. A team of Programme and Project Managers with responsibility to deliver internal transformation, modernisation and change including Business Transformation. Specialist Project and Programme Management support for all SBC programmes of change and transformation. A team of consultancy and policy specialists who support SBC departmental and community change initiatives through the provision of in-house consultancy services. With support from the Programme Office team, this team will continue to manage external funding and European policy support, Community Planning and engaging with local communities and the voluntary sector including Community Grants Scheme, Support for village Halls, Festivals, Citizens Advice Bureaux, Community Councils and Councils of Voluntary Services (the Bridge and BAVS).	6,540	6,718
Recharge to Non-General Fund Accounts	(930)	Income from central support recharges to Non-General Fund Accounts.	(889)	(889)
Sub-Total	**15,949**		**16,222**	**16,818**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Resources Department

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Property & Facilities				
Management				
Gross expenditure	1,046	Direct staff costs and overheads for property management, estates facilities support employees based at HQ and area offices.	1,070	1,114
Income	(515)		(515)	(515)
	531		555	599
Office Accommodation	1,594	Includes repairs, maintenance, energy, rates, water, cleaning and ancillary service costs for 35 offices across the region housing the majority of the Council's administrative and technical staff.	1,664	1,729
Catering				
Gross expenditure	3,515	Provision of catering services to schools, staff restaurant and some external customers.	3,614	3,735
Income	(3,086)		(3,086)	(3,086)
	429		528	649
Cleaning				
Gross expenditure	2,543	Provision of cleaning services to all Council properties.	2,582	2,640
Income	(2,170)		(2,170)	(2,170)
	373		412	470
Other	440	Contribution to Carbon Reduction Energy Efficiency Scheme (carbon tax on council properties) introduced 2011/12. Portable appliance testing for non-educational properties. Mothballing 3 former high schools pending demolition/reuse/disposal.	404	408
Sub-Total	**3,367**		**3,563**	**3,855**
Total	**19,316**		**19,785**	**20,673**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Resources

		Proposed 2012/13 £'000	Proposed 2012/13 £'000	Provisional 2013/14 £'000	Provisional 2013/14 £'000	Provisional 2014/15 £'000	Provisional 2014/15 £'000
2012/13 Provisional Budget (approved February 2011) (Note 1)			15,940		19,316		19,785
Add/Deduct	Permanent virements (Note 4 & 5)		4,178		(18)		0
	Manpower adjustments (Note 2)		(451)		450		766
	Non-pay inflation including service specific (note 3)		130		207		150
	Service developments						
	Demographic and other service pressures	584		(70)		(28)	
	Priority service developments	0		0		0	
			584		(70)		(28)
Deduct:	Efficiencies in service delivery and resource utilisation	(1,003)		(100)		0	
	Increased charges/income	(62)		0		0	
	Service rationalisations	0		0		0	
			(1,065)		(100)		0
Base budget			**19,316**		**19,785**		**20,673**

Notes

1. For 2012/13, this is the 2012/13 provisional budget approved on 11 February 2011. The starting position for the 2013/14 and 2014/15 provisional budgets is the adjusted base budget for the previous year.

2. Manpower adjustments reflect any changes in the establishment from when the 2012/13 provisional budget was approved in February 2011 and includes pay awards, increments and associated employer's NI and pension contribution increase.

3. Non-pay inflation reflects adjustments to the provisional budget set for 2012/13 agreed in February 2011. The inflation for 2013/14 and 2014/15 reflects the most up to date inflationary forecast.

4. Permanent virements reflect the permanent budget changes between departments during 2011/12. The full year effect of savings and pressures for 2011/12 are included in the provisional budget for 2012/13 agreed in February 2011.

Scottish Borders Council **Appendix A**
Revenue Financial Plan 2012/13 to 2014/15
Resources

Non- Pay Inflation

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Details/Consequences
Service					
Department wide	7	0	1	2	Fuel - 10%
	88	0	22	33	Gas - 7%
	41	0	4	9	Heating Oil - 10%
	82	(1)	2	6	Insurance - 5%
	94	1	2	3	Rent - 1.5%
	497	9	26	43	Rates - 4.5%
	300	(3)	27	60	Electricity - 9%
	963	24	103	131	Software Licences - 4.5%
	1,166	100	150	200	Food Costs - 9%
		130	337	487	
Incremental Increase		**130**	**207**	**150**	

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Demographic and other service pressures							
Service							
Business Solutions	6,474	33	28	0		11_1	Additional support for Resilient Communities Initiative.
	6,474	40	0	0		10_2	Funding for Abbotsford Trust continued for one more year.
	6,474	40	15	15		10_2	Additional community grant and support for the Queen's Diamond Jubilee celebrations.
Property & Facilities - Office Accommodation	1,640	120	120	120		10_2	Impact of change in empty property relief for the whole council.
	1,640	33	33	33		10_2	Estimated increased poundage rate for Non Domestic Rates for the whole council.
	658	219	219	219		15_1	Reduction in departments staff turnover budget.
Department wide		20	20	20		07_3	Borders living wage increase to £7.20 council wide.

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Resources

Appendix B

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
		79	79	79	1.00		Demographic and other service pressures approved by Council on 24 November 2011.
		584	514	486	1.00		
Incremental Increase		584	(70)	(28)			

Priority Service Developments

Service

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
		0	0	0	0.00		
Incremental Increase		0	0	0			
		584	514	486	1.00		
Incremental Increase		**584**	**(70)**	**(28)**			

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Customer Services	2,257	(48)	(80)	(80)		15_1	Savings from the Library and Contact Centre review approved by Council in December 2011.
Office Accommodation	1,640	(30)	(30)	(30)		15_1	Property rationalisation savings from the Libraries and Contact Centres review above.
	1,640	(25)	(25)	(25)		15_1	Saving from the closure of St Dunstans in Melrose and the Selkirk social work office which will now be marketed for sale.
Department wide		(900)	(968)	(968)	(15.40)		Efficiencies approved by Council on 24 November 2011.
		(1,003)	(1,103)	(1,103)	(15.40)		
Incremental Reduction		**(1,003)**	**(100)**	**0**			

Scottish Borders Council **Appendix D**
Revenue Financial Plan 2012/13 to 2014/15
Resources

Increased Income/New Charges

	Base Budget 2011/12 £'000	Cumulative Additional Income 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Customer Services	2,257	(3)	(3)	(3)		15_1	Additional income from blue badge fee increasing from £5 to £10 to support the national blue badge scheme.
	2,257	(59)	(59)	(59)			Increased income approved by Council on 24 November 2011.
		(62)	(62)	(62)	0.00		
Incremental Reduction		**(62)**	**0**	**0**			

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Education & Lifelong Learning Department

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Schools				
Early Years	4,845	The service runs 46 school nurseries providing 1,592 places for three and four year olds. 7 nursery classes also operate wraparound care for 25 children. A further 851 places are commissioned through 37 private and voluntary nurseries. The service supports the Childcare Partnership in implementing the National Childcare Strategy. It also runs 1 full day nursery catering for 29 children including 19 places for 3 and 4 year olds.	4,945	5,066
Primary Schools	30,852	There are over 8,000 primary pupils, educated in 64 primary schools. All educational materials and services are provided within the school's Devolved School Management (DSM) allocation. The Non-Devolved budget provides for medium and long-term teaching absence cover, RICCT cover, evening lets janitorial support, emergency health and safety, schools alarm systems, schools photocopier rental and HQ support. It also provides additional teaching hours to release classroom teachers for preparation activities or to support schools/teachers at times of exceptional need.	31,566	32,374
Secondary Schools	39,184	There are over 6,600 secondary pupils, educated in 9 secondary schools. Education is provided for pupils from the age of 11, with more than 76% of senior pupils opting to continue their education beyond 4th year. The Non-Devolved budget provides for medium and long-term teaching absence cover, evening lets janitorial support, emergency health and safety, schools alarm systems, schools photocopier rental and HQ support. The Unitary Charge for the 3 new High Schools is also included here.	40,382	41,509

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Education & Lifelong Learning Department

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Schools (contd.)				
Central Schools		To account for and manage funding which is not directly attributable to a specific sector within the Schools Service, including Probationer Teacher support and cross sector working. Central Schools now also accounts for and manages budgets for National Grid for Learning (NGfL), Facilities, Music, Clothing & Footwear Grants, Curriculum for Excellence (CfE) and Quality Improvement as well as the departments Continuing Professional Development (CPD) budget.		
Gross expenditure	4,816		4,647	4,713
Income	(489)		(489)	(489)
	4,327		4,158	4,224
Transportation	3,234	Every day the service transports approximately 4,900 pupils to and from school (approximately a third of all pupils) via 381 different routes.	3,159	3,159
School Meals		This budget covers the net cost of providing school meals which incorporates a subsidy on each traditional meal. Approximately 39% of pupils in primary are taking a school lunch and on average 37% of these are provided free to entitled pupils. Includes changes as a result of the Schools (Health Promotion and Nutrition) Scotland Act 2007 and the continuing initiatives to increase the uptake of both paid and free school meals.		
Gross expenditure	2,964		2,977	2,991
Income	(1,516)		(1,516)	(1,516)
	1,448		1,461	1,475
Sub-Total	**83,890**		**85,671**	**87,807**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Education & Lifelong Learning Department

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Strategic Services	1,558	Strategic Services encompass the central management and support of the department. This includes the Directorate, PA team and the Policy, Planning and Performance Management Team. This budget also includes the Children and Young Peoples Planning Partnership, a strategic partnership group which delivers the Scottish Borders Children and Young People's Services Plan. Strategic Services also provide departmental input to a range of corporate and community planning partnership plans and programmes.	1,581	1,601
Sub-Total	**1,558**		**1,581**	**1,601**
Community Services				
Physical Activities	2,519	The Council has moved to a commissioning role for the provision of the Physical Activities service where the authority and its partners seek to secure the best outcomes for communities by outsourcing the available resources. Outdoor Education is still managed by the Council through this budget.	2,535	2,545

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Community Services (contd.)				
Community Learning & Development (CLD)	2,430	This service addresses both non-formal and accredited learning needs of young people and adults within their communities. It does so through enhancing people's knowledge, skills and confidence, organisational capacity and resources, with a particular emphasis on working with those who are disadvantaged and disadvantaged communities. Service priorities are Youth Work, including Youth Participation and Youth Employability for disadvantaged young people, Adult Literacy and Numeracy, English for speakers of other languages (ESOL), Supporting Parents, Family Learning and work with 16 Community Centre / Community School Management Committees. In 2010/11 over 2,240 adults and young people benefited directly from participation in learning programmes. CLD also works closely with partners to develop community learning and community development activity, including engaging local people in Community Planning processes.	2,418	2,508
Community Arts	277	The Arts Development service supports, promotes and develops arts and cultural activity across the Scottish Borders. The activities include youth theatre and dance programmes, Cultural Co-Ordinator Programme, Voice of My Own Project, Creative Arts Business Network, traditional music and song initiatives, event and festival promotion, marketing, audience development and the provision of community arts equipment. The service provides support to the professional and voluntary arts sectors.	265	273

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Community Services (contd.)				
Libraries & Information	1,837	Libraries & Information Services are currently undergoing review. The new service will manage 6 libraries and 6 mobile libraries and will support 6 combined Library/contact centres. In 2010/11 active membership increased from 20,337 (18.1% of the population) to 21,709 (19.3%) and c20,000 new items were added to stock. SBC Libraries recorded over 434,208 visits and library staff dealt with over 63,000 enquiries, both up on the figures for the previous year. SBC Libraries also provide a range of on-line reference resources, on line training courses, introductory courses in basic IT, free access to the Internet, collections to support emotional literacy, adult literacy and learning English for speakers of other languages (ESOL), and self help collections to support healthy living. Libraries also run a regular programme of increasingly popular Bookbug rhymetime sessions, and provide a range of services, events and activities for all ages.	1,891	1,963
Museums & Galleries	937	The service manages 11 museums and Harestanes Countryside Visitor Centre, their collections, a programme of over 50 temporary exhibitions and associated educational, learning opportunities and events. Visitor figures remained buoyant with almost 150,000 visits during 2011 (the second highest annual total recorded) and thus SBC museums continue to support and sustain economic activity and help secure Scottish Borders position as a popular tourism destination.	967	1,008

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Community Services (contd.)				
Central Community Services	734	To account for and manage funding which is not directly attributable to a specific sector within Community Services, this includes the Heart of Hawick Regeneration project and administrative support for Community Services, including administrative support for the various strands which make up the Transformation agenda. In addition the bookings for the three PPP schools are centrally administered, encouraging and developing community use of facilities and negotiating, monitoring and agreeing the final fees due with SBC's Private Partners. The Heart of Hawick campus incorporates Tower Mill, Heritage Hub, Borders Textile Towerhouse and the Civic Space, in what is the largest single regeneration project undertaken by SBC. The service offers genealogy, archives and family history services, textiles story and history, a cafe open from 9am till late every evening, 12 business workspaces for tenants or for use as meeting rooms, as well as c. 300 mainstream film screenings and c. 100 live events per annum.	637	662
Sub-Total	**8,734**		**8,713**	**8,959**
Total	**94,182**		**95,965**	**98,367**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Education & Lifelong Learning

		Proposed 2012/13 £'000	Proposed 2012/13 £'000	Provisional 2013/14 £'000	Provisional 2013/14 £'000	Provisional 2014/15 £'000	Provisional 2014/15 £'000
2012/13 Provisional Budget (approved February 2011) (Note 1)			95,800		94,182		95,965
Add/Deduct	Permanent virements and full year effect of previous year's growth/savings		(11)		(73)		0
	Manpower adjustments (Note 2)		(493)		1,466		1,561
	Non-pay inflation including service specific (Appendix A)		136		916		881
	Service developments (Appendix B)						
	Demographic and other service pressures	68		(11)		0	
	Priority service developments	200		(200)		0	
			268		(211)		0
Deduct:	Efficiencies in service delivery and resource utilisation (Appendix C)	(1,322)		(315)		(40)	
	Increased charges/income (Appendix D)	0		0		0	
	Service rationalisations (Appendix E)	(196)		0		0	
			(1,518)		(315)		(40)
Base budget			**94,182**		**95,965**		**98,367**

Notes

1. For 2012/13, this is the 2012/13 provisional budget approved on 11 February 2011. The starting position for the 2013/14 and 2014/15 provisional budgets is the adjusted base budget for the previous year.

2. Manpower adjustments reflect any changes in the establishment from when the 2012/13 provisional budget was approved in February 2011 and includes pay awards, increments and associated employer's NI and pension contribution increase.

3. Non-pay inflation reflects adjustments to the provisional budget set for 2012/13 agreed in February 2011. The inflation for 2013/14 and 2014/15 reflects the most up to date inflationary forecast.

4. Permanent virements reflect the permanent budget changes between departments during 2011/12. The full year effect of savings and pressures for 2011/12 are included in the provisional budget for 2012/13 agreed in February 2011.

Scottish Borders Council **Appendix A**
Revenue Financial Plan 2012/13 to 2014/15
Education & Lifelong Learning

Non- Pay Inflation

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Details/Consequences
Service					
Schools					
	7,491	82	494	927	Unitary Charge - 5.2%
	619	(9)	(9)	(9)	Exam Fees - 1.5%
Department wide	38	(1)	3	7	Fuel - 10%
	527	5	138	204	Gas - 7%
	401	(1)	39	83	Heating Oil - 10%
	546	4	31	60	Insurance - 5%
	48	0	1	2	Rent - 1.5%
	3,922	58	180	306	Rates - 4.5%
	1,607	(2)	175	353	Electricity - 9%
		136	1,052	1,933	
Incremental Increase		**136**	**916**	**881**	

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Demographic and other service pressures							
Service							
Schools							
Central Schools	3,949	45	45	45		04_03	Reinstate saving from 2011/12 Financial Plan and increase budget in line with demand for clothing and footwear allowance.
Community Services							
Strategic Services	2,524	12	12	12		06_01	To realign budgets following the transfer of an allocation of this budget to Borders Sport & Leisure Trust.
Community Arts	304	11	0	0		11_01	Continue additional support for Eastgate theatre for 1 year.
		68	57	57	0.00		
Incremental Increase		68	(11)	0			

Scottish Borders Council **Appendix B**
Revenue Financial Plan 2012/13 to 2014/15
Education & Lifelong Learning

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Priority Service Developments							
Service							
Schools							
Central Schools		200	0	0		04_03	Provision of budget to support minor refurbishment projects in schools across the borders.
		200	0	0	0.00		
Incremental Increase		200	(200)	0			
		268	57	57	0.00		
Incremental Increase		**268**	**(211)**	**0**			

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Schools							
Primary Schools	31,732	(103)	(103)	(103)		04_03	Reduction to accrued holiday pay entitlement for supply teachers following changes to terms & conditions implemented in August 2011.
Secondary Schools	38,672	(100)	(100)	(100)		15_1	More effective monitoring of PPP Contracts for 3HS.
	38,672	(102)	(102)	(102)		04_03	Reduction to accrued holiday pay entitlement for supply teachers following changes to terms & conditions implemented in August 2011.
Central Schools	3,949	(44)	(44)	(44)		04_03	Efficiency resulting from current levels of Probationer teachers.
	3,949	(70)	(70)	(70)		04_03	Efficiencies within ICT budget following centralisation into Business Solutions.
Transportation	3,359	(125)	(200)	(200)		14_4	Savings to be achieved from the planned review of Passenger Transport.
Community Services	8,734	(325)	(565)	(605)		15_1	Savings from the Transforming Community Services review.

Scottish Borders Council **Appendix C**
Revenue Financial Plan 2012/13 to 2014/15
Education & Lifelong Learning

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Department Wide		(125)	(125)	(125)	(4.00)	15_1	Savings to be achieved from ER/VS applications.
		(328)	(328)	(328)			Efficiencies approved by Council on 24 November 2011.
		(1,322)	(1,637)	(1,677)	(4.00)		
Incremental Reduction		**(1,322)**	**(315)**	**(40)**			

Service Rationalisations

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Early Years	5,267	(18)	(18)	(18)		05_01	Reduction of operating costs within the Childcare Strategy Budget.
Central Schools	3,949	(54)	(54)	(54)		04_03	Maintain temporary reduction in training budget for one more year.
Department wide		(124)	(124)	(124)			Rationalisations approved by Council on 24 November 2011.
		(196)	(196)	(196)	0.00		
Incremental reduction		**(196)**	**0**	**0**			

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Social Work Department

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Integrated Children's Services		This service provides a range of services to children with additional learning or social, emotional or behavioural needs specialist teaching and where required, transport and accommodation. In addition, it also provides a number of other services including: an intake (point of referral/assessment) and long-term frontline social work services; specialist child protection service co-located with Police, Health and Education & Lifelong Learning; Family Support Service across 6 centres; a 5 bedded residential unit for young people; a team which recruits and supports foster carers; a specialist team providing assessment and support services for children with disabilities and their families; a youth offending service and a transitions service for young people leaving care. Such services are provided internally and through the voluntary and independent sectors.		
Gross expenditure	24,974		24,986	25,310
Income	(898)		(898)	(898)
Sub-Total	**24,076**		**24,088**	**24,412**
Social Care & Health				
Older People				
Gross expenditure	31,635	Care provision to Older People includes a number of traditional services, in addition to a range of new services currently being implemented including internal residential provision, external care home places for residential and nursing care, intermediate care, home care and intensive homecare, housing with care and extra care housing, day services and social centres and a range of preventative and transitional services to enable clients to remain in their communities.	31,978	32,532
Income	(9,080)		(9,080)	(9,080)
	22,555		22,898	23,452

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Social Work Department

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Social Care & Health (contd.)				
Adults with Learning Disabilities		This service is managed and delivered jointly with NHS Borders although this budget represents only the Council's contribution. It supports the delivery of residential care and a range of community-based care including home care, tenancy support, day services and housing support. The service also includes a specialist assessment and care management team.		
Gross expenditure	15,764		15,797	15,926
Income	(2,247)		(2,247)	(2,247)
	13,517		13,550	13,679
People with Physical Disabilities		This service supports clients with physical disabilities providing residential care, home care, a specialist brain injury service, supported living accommodation and respite / short breaks facilities.		
Gross expenditure	3,444		3,448	3,453
Income	(730)		(730)	(730)
	2,714		2,718	2,723
People with Mental Health Needs		A joint service with NHS to provide a range of residential and community-based services including home care, respite, housing support and day services such as drop-in centres and support workers. Caring for clients with drug or alcohol problems is also supported by this budget.		
Gross expenditure	2,396		2,421	2,461
Income	(224)		(224)	(224)
	2,172		2,197	2,237
Generic Services and Staff Teams		This budget resources the Social Care and Health staffing structure, excluding the Mental Health and Learning Disability teams which are joint services with NHS, but including locality teams, service management and planning and the provision of a wide-range of generic services across all client groups including the Borders Ability Equipment Store, Adult Protection, Health Improvement, Emergency Duty Team, Occupational Therapy, Rehabilitation and Adaptations.		
Gross expenditure	5,001		5,109	5,328
Income	(360)		(360)	(360)
	4,641		4,749	4,968
Sub-Total	**45,599**		**46,112**	**47,059**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Social Work Department

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Housing and Community Justice				
Housing		As a strategic housing authority, the Council is responsible for the development and delivery of the Local Housing Strategy, to address below tolerable standard housing in the private sector, to promote and enable the provision of affordable housing and to provide disabled adaptations to enable people to live independently in their own homes. It is also responsible for registering private landlords and ensuring they adhere to their legal responsibilities and in partnership with Eildon Housing, provides the Care and Repair service. The service also includes provision of a welfare benefits service to citizens of the Scottish Borders.		
Gross expenditure	1,891		1,898	1,915
Income	(363)		(364)	(364)
	1,528		1,534	1,551
Homelessness		Under the Housing (Scotland) Act 2009, the council has a statutory duty to prevent homelessness by early intervention and the provision of information and advice. It also has a duty to develop a range of accommodation solutions in order to fulfil its obligation to clients in a range of housing circumstances.		
Gross expenditure	2,495		2,538	2,587
Income	(1,484)		(1,485)	(1,485)
	1,011		1,053	1,102
Performance & Improvement		Infrastructure and support services covering the service's Senior Management Team, performance management, administrative support and staff development.		
Gross expenditure	3,637		3,842	3,921
Income	(226)		(226)	(226)
	3,411		3,616	3,695
Services in the Criminal Justice System		The Criminal Justice Social Work Service provides a range of statutory services to the District, Sheriff and High Courts and the Scottish Parole Division providing community and prison-based assessment and management and supervision of adult offenders designed to protect the community and reduce re-offending. The service continues to be fully funded by Scottish Government Grant.		
Gross expenditure	1,143		1,143	1,143
Income	(1,143)		(1,143)	(1,143)
	0		0	0
Sub-Total	**5,950**		**6,203**	**6,348**
Total	**75,625**		**76,403**	**77,819**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Social Work

		Proposed 2012/13 £'000	Proposed 2012/13 £'000	Provisional 2013/14 £'000	Provisional 2013/14 £'000	Provisional 2014/15 £'000	Provisional 2014/15 £'000
2012/13 Provisional Budget (approved February 2011) (Note 1)			76,567		75,625		76,403
Add/Deduct	Permanent virements (Note 4)		(303)		(449)		0
	Manpower adjustments (Note 2)		(909)		1,061		1,418
	Non-pay inflation including service specific (note 3)		120		227		208
	Service developments						
	Demographic and other service pressures	1,674		(200)		(200)	
	Priority service developments	0		0		0	
			1,674		(200)		(200)
Deduct:	Efficiencies in service delivery and resource utilisation	(1,304)		(11)		(10)	
	Increased charges/income	(5)		0		0	
	Service rationalisations	(215)		150		0	
			(1,524)		139		(10)
Base budget			**75,625**		**76,403**		**77,819**

Notes

1. For 2012/13, this is the 2012/13 provisional budget approved on 11 February 2011. The starting position for the 2013/14 and 2014/15 provisional budgets is the adjusted base budget for the previous year.

2. Manpower adjustments reflect any changes in the establishment from when the 2012/13 provisional budget was approved in February 2011 and includes pay awards, increments and associated employer's NI and pension contribution increase.

3. Non-pay inflation reflects adjustments to the provisional budget set for 2012/13 agreed in February 2011. The inflation for 2013/14 and 2014/15 reflects the most up to date inflationary forecast.

4. Permanent virements reflect the permanent budget changes between departments during 2011/12. The full year effect of savings and pressures for 2011/12 are included in the provisional budget for 2012/13 agreed in February 2011.

Scottish Borders Council **Appendix A**
Revenue Financial Plan 2012/13 to 2014/15
Social Work

Non- Pay Inflation

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Details/Consequences
Service					
Department Wide	63	-1	5	12	Fuel - 10%
	178	-2	47	71	Gas - 7%
	14	0	1	3	Heating Oil - 10%
	211	0	11	22	Insurance - 5%
	558	0	8	16	Rent - 1.5%
	71	0	2	4	Rates - 4.5%
	228	-2	22	47	Electricity -9%
	6,207	125	251	380	Residential Homes - 2%
		120	347	555	
Incremental Increase		**120**	**227**	**208**	

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Demographic and other service pressures							
Service							
Integrated Children's Services	23,001	734	734	734		08_2	Increased number of accommodated and looked after children.
	23,001	400	200	0		08_2	Additional transport budget due to increased demand and continuing passenger transport review.
	23,001	350	350	350		08_2	Increase of weekly Foster Care fees and allowances to: Fees level 1 £150, level 2 £200; allowances 0-10 years £120, 11+ years £180.
Department Wide		190	190	190			Demographic and other service pressures approved by Council on 24 November 2011.
		1,674	1,474	1,274	0.00		
Incremental Increase		1,674	(200)	(200)			

Appendix B

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Priority Service Developments							
Service							
		0	0	0	0.00		
Incremental Increase		0	0	0			
		1,674	1,474	1,274	0.00		
Incremental Increase		**1,674**	**(200)**	**(200)**			

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Social Care & Health							
Generic Services	47,719	(357)	(357)	(357)	(10.00)	15_1	Target for Reduction in SC&H staffing through VS/ER schemes.
Older People	22,995	(145)	(145)	(145)		06_3	Reduction of 10 beds out of 700 beds to clients in Residential Care in line with the Transforming Older Peoples Service review.
Department Wide		(802)	(813)	(823)	(5.00)		Efficiencies approved by Council on 24 November 2011.
		(1,304)	(1,315)	(1,325)	(15.00)		
Incremental Reduction		**(1,304)**	**(11)**	**(10)**			

Increased Income/New Charges

	Base Budget 2011/12 £'000	Cumulative Additional Income 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Housing & Community Justice							
Homelessness	789	(5)	(5)	(5)			Income approved by Council on 24 November 2011.
		(5)	(5)	(5)	0.00		
Incremental Reduction		**(5)**	**0**	**0**			

Revenue Financial Plan 2012/13 to 2014/15
Social Work

Service Rationalisations

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Social Care & Health							
All Social Care and Health client groups	47,719	(48)	(48)	(48)		06_4	Reduce maximum level of respite from 6 weeks to 4 weeks for older people.
Housing & Community Justice							
Housing	1,742	(17)	(17)	(17)	(0.50)	14_4	Cessation of the Home Energy Advice Service.
Performance & Improvement	4,087	(150)	0	0		15_1	Maintain temporary reduction in training budget for one more year.
		(215)	(65)	(65)	(0.50)		
Incremental reduction		**(215)**	**150**	**0**			

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Engineering and Infrastructure				
Roads	6,436	Maintenance and repair of 3,000 kilometres (km) of public roads, 900 km of footways, 1,200 bridges, 20,000+ road signs, 112 car parks and 20,000 road gullies, through planned, cyclic, routine, reactive and emergency works, together with road safety initiatives, road accident investigation and traffic management services. Maintenance and repair of 20,000 street lights and illuminated signs, cabling and switch gear. Includes closed circuit television (CCTV) installations, festive and civic lighting schemes and traffic management information. Direct staff costs and overheads for Asset and Network Management employees, based at HQ and 4 area offices.	6,398	6,786
Pay Parking				
Gross expenditure	173	Maintenance of 18 Pay and Display machines and 5 hand-held terminals, processing of Penalty Charges Notices. Surpluses are used to support local roads and environmental improvements agreed by local members.	173	173
Income	(173)		(173)	(173)
	0		0	0
Fleet Management				
Gross expenditure	3,311		3,343	3,381
Income	(3,526)	Provision of management and maintenance services for Council's fleet.	(3,527)	(3,527)
	(215)		(184)	(146)

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Engineering and Infrastructure (contd.)				
Passenger Transport				
Gross expenditure	11,002	Arrangement of mainstream and special needs transport for internal Council clients, notably Education and Lifelong Learning and Social Work and also for Scottish Borders College. Transport provision is via a mixture of commercial bus services, contracted bus services and the Council's own internal fleet, as well as taxis and minibuses from the private sector.	11,023	11,062
Income	(8,700)		(8,699)	(8,709)
	2,302	Provision of a network of supported local bus services including timetabled routes and occasional demand responsive services in more rural areas. Provision of bus timetables and other service information.	2,324	2,353
Major Projects Management				
Gross expenditure	1,816	Direct staff costs and overheads for programme and project management, architectural, engineering design and construction management employees based at HQ, together with costs of the regulatory roads & bridges functions.	1,874	1,964
Income	(1,401)		(1,404)	(1,404)
	415		470	560
Flood/Coast/Reservoir	235	Works to keep watercourses free from obstruction, plus the management and maintenance of flood and coast protection structures and management of reservoir inspections.	236	237
Trading Contribution	(326)	Contribution from operating results of SBContracts.	(326)	(326)
Sub-Total	**8,847**		**8,918**	**9,464**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Neighbourhood Services				
Waste				
Gross expenditure	10,631	Collection of 52,000 tonnes of trade & domestic waste annually from 56,000 households and 1,475 businesses across the region, including 2,700 special uplifts. This includes collection of 11,000 tonnes of dry recyclate and 6,000 tonnes of green waste.	11,200	11,783
Income	(1,936)		(1,936)	(1,936)
	8,695		9,264	9,847
		Disposal of 83,000 tonnes of waste annually. This includes 40,000 tonnes of commercial and household waste, 15,000 tonnes of industrial waste and 27,500 tonnes of recyclate.		
		Roll out new waste and recycling services. Support of operations and waste strategy through delivery of customer care service. Education and awareness raising activities in the community, schools, at events etc. Recycling monitoring and intervention works. Waste strategy and recycling development and project works.		
SB Wardens	264	SB Wardens service works in partnership with many other groups, organisations and communities. Provides high visibility patrols to deter ASB; monitors ASB orders for compliance; issues crime prevention advice; undertakes education and awareness raising work; enforces legislation (e.g. dog fouling and litter).	271	280
Safer Communities	410	This team is a proactive unit which addresses community safety priorities based upon analytical analysis. The team operates at a strategic, tactical and operational level, influencing policies across the community planning framework as well as directly delivering educational, prevention, intervention and diversionary activities.	416	422

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Neighbourhood Services (contd.)				
Neighbourhoods	7,413	Neighbourhood Services is tasked with delivering a range of local services from local depots. Parks & Open Spaces: Floral displays, hanging baskets, planting, grass cutting and general maintenance of over 635 hectares of public parks, sports pitches, open spaces and amenity areas and 194 children's play areas. Burial Grounds: General maintenance and grass cutting of 148 burial grounds across the region, where approximately 850 burials take place per year. Street Cleaning: Regular street sweeping of over 550 km of roads and paths in Border towns and villages and 148,000 sq metres of car parks. Regularly empty litter bins. Public Conveniences: Operating 43 unmanned facilities in towns, parks and picnic sites. SB Local: Rapid reaction hit squads dealing with day to day issues that affect roads, parks and cleansing throughout the whole of the Scottish Borders including verge litter picking squads. Plus a dedicated budget for locally prioritised small schemes.	7,602	7,823

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Neighbourhood Services (contd.)				
Neighbourhoods (contd.)		Winter Maintenance: Management and provision to meet the cost of the winter service through gritting and snow/ice clearing on the Council's roads, including weather forecasting and bureau management.		
Sub-Total	**16,782**		**17,553**	**18,372**
Planning and Regulatory				
Planning				
Gross expenditure	2,429	Processing of approximately 1,700 planning applications and 1,800 building warrants per annum, together with 350 planning enforcement and 150 building standards enforcement cases. Preparation of Local Development Plan and supplementary planning policy/guidance. Support to City Region planning processes. Information and research, including GIS, to support departmental planning processes. Environmental appraisal, Strategy and Climate Change work.	2,494	2,592
Income	(1,988)		(2,008)	(2,008)
	441		486	584
Regulatory Services	1,280	Regulatory and advice service for food, health & safety, metrology, fair trading, animal health, air, noise, land and water pollution, pest and dog control and private water supplies. Administer private water supplies grants, provide advice and intervention services to and for the benefit of consumers and businesses, deal with the removal of abandoned vehicles, investigate communicable disease and abate public health nuisances. Enforce contaminated land legislation and undertake petroleum licensing.	1,320	1,380
Sub-Total	**1,721**		**1,806**	**1,964**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Service	**Budget 2012/13 £'000**	**Service the budget allocation pays for**	**Budget 2013/14 (Provisional) £'000**	**Budget 2014/15 (Provisional) £'000**
Economic Development and Environment				
Economic Development				
Gross expenditure	1,592	Staff and overhead costs associated with delivering Council Priorities and Single Outcome targets to sustain and grow the economy of the Scottish Borders. The Council focuses on providing support, advice and information to assist the economy and benefit businesses and communities in key areas of business support (including Business Gateway services and inward investment), town centre regeneration, financial support and property/premises. The Council also recognises the importance of promoting activity in key sectors of the Scottish Borders economy and delivers a number of interventions in the agriculture, forestry and fishing, tourism, creative industries, food and drink and textile sectors. The Economic Development Team is also actively involved in European policy ensuring that the Scottish Borders is promoted and external funding opportunities maximised. The low carbon agenda is also promoted.	1,603	1,628
Income	(82)		(100)	(100)
	1,510		1,503	1,528
Built and Natural Heritage	894	This section protects, enhances and promotes the SOA Outcomes linked to Built and Natural Heritage together with Core Path planning. It delivers a series of partnership projects including regeneration and seeks to maximise external funding for its projects; contributes to corporate and departmental projects. The team provides specialist support to the statutory planning system and to the Scottish Rural Development Programme. It takes forward specific outcomes linked to building conservation; urban design; archaeology; biodiversity, access and countryside, landscape and trees.	914	940
Sub-Total	**2,404**		**2,417**	**2,468**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Business Support	1,534	Direct staff costs and overheads for Business Support staff based mainly at HQ. The service provides business support and advice to all divisions in performance monitoring, business planning, business transformation and policy development as well as monitoring departmental risks, business continuity and equality & diversity activity.	1,578	1,639
Sub-Total	**1,534**		**1,578**	**1,639**
Total	**31,288**		**32,272**	**33,907**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

		Proposed 2012/13		Provisional 2013/14		Provisional 2014/15	
		£'000	£'000	£'000	£'000	£'000	£'000
2012/13 Provisional Budget (approved February 2011) (Note 1)			32,217		31,288		32,272
Add/Deduct	Permanent virements (Note 4)		(539)		(17)		(16)
	Manpower adjustments (Note 2)		(238)		465		677
	Non-pay inflation including service specific (note 3)		10		936		974
	Service developments						
	Demographic and other service pressures	400		(400)		0	
	Priority service developments	0		0		0	
			400		(400)		0
Deduct:	Efficiencies in service delivery and resource utilisation	(363)		0		0	
	Increased charges/income	(120)		0		0	
	Service rationalisations	(79)		0		0	
			(562)		0		0
Base budget			**31,288**		**32,272**		**33,907**

Notes

1. For 2012/13, this is the 2012/13 provisional budget approved on 11 February 2011. The starting position for the 2013/14 and 2014/15 provisional budgets is the adjusted base budget for the previous year.

2. Manpower adjustments reflect any changes in the establishment from when the 2012/13 provisional budget was approved in February 2011 and includes pay awards, increments and associated employer's NI and pension contribution increase.

3. Non-pay inflation reflects adjustments to the provisional budget set for 2012/13 agreed in February 2011. The inflation for 2013/14 and 2014/15 reflects the most up to date inflationary forecast.

4. Permanent virements reflect the permanent budget changes between departments during 2011/12. The full year effect of savings and pressures for 2011/12 are included in the provisional budget for 2012/13 agreed in February 2011.

Scottish Borders Council **Appendix A**
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Non- Pay Inflation

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Details/Consequences
Service					
Roads Service					
Roads	6,701	18	187	376	Increased budget required to cover construction industry inflation, principally the costs of bituminous materials and aggregates 11.1%.
Department wide	1,081	1	110	230	Fuel - 10%
	28	(3)	3	6	Gas - 7%
	18	0	2	4	Heating Oil - 10%
	367	(3)	15	34	Insurance - 5%
	41	0	1	2	Rent - 1.5%
	3,022	0	432	864	Landfill Tax - 14.3%
	6,247	0	122	247	SBC contracts - 2%
	349	5	12	19	Rates - 4.5%
	702	(8)	62	138	Electricity -9%
		10	946	1,920	
Incremental Increase		**10**	**936**	**974**	

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Demographic and other service pressures							
Service							
Engineering & Infrastructure							
Roads		400	0	0			Additional maintenance for roads, pavements and drainage.
		400	0	0	0.00		
Incremental Increase		400	(400)	0			

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Priority Service Developments							
Service							
		0	0	0	0.00		
Incremental Increase		0	0	0			
		400	0	0	0.00		
Incremental Increase		**400**	**(400)**	**0**			

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Engineering & Infrastructure							
Roads	6,701	(20)	(20)	(20)		01_1	Reduced secondary cutting of roadside verges on straight sections of B, C and D class roads.
	6,701	(20)	(20)	(20)		01_1	Increase the responsibility on property developers to fully undertake and complete all small scale revenue works associated with linking their development into existing road assets.
Neighbourhood Services							
Neighbourhoods	8,627	(17)	(17)	(17)		15_1	Savings achieved from the review of public conveniences through the closure of Meldons and transfer of Grantshouse & Coldingham public convenience facilities.
	8,627	(48)	(48)	(48)	(3.00)	15_1	Reduction in seasonal staff as part of a move towards a multi-skilled workforce within a neighbourhoods structure.

Scottish Borders Council **Appendix C**
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Economy & Environment							
Department Wide	679	(172)	(172)	(172)		15_1	Targeted efficiencies in overtime, training of staff, travel, equipment purchase, car phone charges, consultancy, subscriptions, course and conference expenditure.
		(86)	(86)	(86)	(3.50)		Efficiencies approved by Council on 24 November 2011.
		(363)	(363)	(363)	(6.50)		
Incremental Reduction		**(363)**	**0**	**0**			

Scottish Borders Council **Appendix D**
Revenue Financial Plan 2012/13 to 2014/15
Environment & Infrastructure

Increased Income/New Charges

	Base Budget 2011/12 £'000	Cumulative Additional Income 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Engineering & Infrastructure							
Passenger Transport	2,462	(35)	(35)	(35)			Income approved by Council on 24 November 2011.
	2,462	(49)	(49)	(49)		01_2	Additional fares and concessions income arising from increased passenger numbers on minimum cost services.
Neighbourhood Services							
Waste	8,168	(21)	(21)	(21)		15_1	Increase bulky uplift charges from £5.50 per item to £25 per 5 items to reduce the service deficit.
Planning & Regulatory							
Planning	339	(15)	(15)	(15)		15_1	Introduction of charges for pre-planning application advice of £100 per application for developers.
		(120)	(120)	(120)	0.00		
Incremental Reduction		**(120)**	**0**	**0**			

Service Rationalisations

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Engineering & Infrastructure							
Roads	6,701	(43)	(43)	(43)		15_1	Savings on maintenance accrued by installing modern fittings requiring less maintenance.
	6,701	(36)	(36)	(36)		15_1	Savings to be achieved by filling two vacancies with recently qualified trainees.
		(79)	(79)	(79)	0.00		
Incremental reduction		**(79)**	**0**	**0**			

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Other

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Loan Charges	21,349	Principal, interest and expenses in respect of loans taken to finance capital expenditure.	21,349	21,349
Interest on Revenue Balances	(10)	Interest earned on the General Fund Reserve and positive cash flow on activities during the year.	(10)	(10)
Contribution to Property Maintenance Fund	2,089	The Property Maintenance Fund meets the cost of repairs and maintenance of the Council's property portfolio.	2,089	2,089
Provision for bad debts	125	A contribution to the Bad Debt Provision which meets the cost of irrecoverable sundry debts.	125	125
Housing Benefits				
Gross expenditure	29,910	Housing Benefits paid out and associated DWP subsidy.	29,910	29,910
Income	(29,317)		(29,317)	(29,317)
	593		593	593
Housing Benefits	58	The cost to the Council of discretionary housing benefit not funded from the DWP subsidy.	58	58
Non Domestic Rates	150	The net cost to the Council of discretionary rates relief not funded from the national non-domestic rates pool.	150	150
Commercial Rents	(1,048)	Income from commercial rents.	(1,048)	(1,048)
Sub-Total	**23,306**		**23,306**	**23,306**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
Other

Service	Budget 2012/13 £'000	Service the budget allocation pays for	Budget 2013/14 (Provisional) £'000	Budget 2014/15 (Provisional) £'000
Police and Fire				
Police	9,661	Requisition from Lothian and Borders Police Board to meet the net cost of police services in the Borders.	9,585	9,585
Fire	7,371	Requisition from Lothian and Borders Fire & Rescue Board to meet the net cost of fire and rescue services in the Borders.	7,307	7,307
Sub-Total	**17,032**		**16,892**	**16,892**
Corporate Programmes, Partnerships, Projects				
Business Transformation	1,546	Implementation of the programme.	155	155
	(428)	General provision for savings from better procurement.	(428)	(428)
	(247)	Customer First Savings.	(247)	(247)
	984	Contributions to Change Fund for spend to save initiatives, as required within the Scottish Government settlement arrangement.	984	984
Fairer Scotland Fund (FSF)	223	Distributed through the Fairer Borders 'New Ways' Partnership Group to projects which tackle social exclusion and poverty related issues.	223	223
Sub-Total	**2,078**		**687**	**687**
Total	**42,416**		**40,885**	**40,885**

Scottish Borders Council
Revenue Financial Plan 2012/13 to 2014/15
CPPP & Other

		Proposed 2012/13		Provisional 2013/14		Provisional 2014/15	
		£'000	£'000	£'000	£'000	£'000	£'000
2012/13 Provisional Budget (approved February 2011) (Note 1)			40,365		42,416		40,885
Add/Deduct	Permanent virements (Note 4)		(411)		(161)		0
	Manpower adjustments (Note 2)		0		0		0
	Non-pay inflation including service specific (note 3)		0		0		0
	Service developments						
	Demographic and other service pressures	209		0		0	
	Priority service developments	2,354		(1,370)		0	
			2,563		(1,370)		0
Deduct:	Efficiencies in service delivery and resource utilisation	(101)		0		0	
	Increased charges/income	0		0		0	
	Service rationalisations	0		0		0	
			(101)		0		0
Base budget			**42,416**		**40,885**		**40,885**

Notes

1. For 2012/13, this is the 2012/13 provisional budget approved on 11 February 2011. The starting position for the 2013/14 and 2014/15 provisional budgets is the adjusted base budget for the previous year.

2. Manpower adjustments reflect any changes in the establishment from when the 2012/13 provisional budget was approved in February 2011 and includes pay awards, increments and associated employer's NI and pension contribution increase.

3. Non-pay inflation reflects adjustments to the provisional budget set for 2012/13 agreed in February 2011. The inflation for 2013/14 and 2014/15 reflects the most up to date inflationary forecast.

4. Permanent virements reflect the permanent budget changes between departments during 2011/12. The full year effect of savings and pressures for 2011/12 are included in the provisional budget for 2012/13 agreed in February 2011.

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Demographic and other service pressures							
Service							
Housing Benefits	593	58	58	58		15_1	To provide additional budget for discretionary housing benefit payments approved by the Council.
Police	9,734	151	151	151		09_3	Increase in requisition.
		209	209	209	0.00		
Incremental Increase		209	0	0			

Scottish Borders Council **Appendix B**
Revenue Financial Plan 2012/13 to 2014/15
Other

Service Developments

	Base Budget 2011/12 £'000	Cumulative Increase 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Priority Service Developments							
Service							
Business Transformation	67	1,070	0	0			Demographic and other service pressures approved by Council on 24 November 2011.
	67	300	0	0		15_1	To provide budget to assist in implementation of Business Transformation phase 2.
	67	984	984	984		06_3 / 04_2	Contribution to Change Funds/efficiency projects.
		2,354	984	984	0.00		
Incremental Increase		2,354	(1,370)	0			
		2,563	1,193	1,193	0.00		
Incremental Increase		**2,563**	**(1,370)**	**0**			

Efficiencies in service delivery and resource utilisation

	Base Budget 2011/12 £'000	Cumulative Reduction 2012/13 £'000	2013/14 £'000	2014/15 £'000	Staffing Implications FTE	Council Priority Ref.	Details/Consequences
Service							
Loan Charges	21,975	(29)	(29)	(29)		15_1	Net decrease in interest in respect of loans.
Fairer Scotland	231	(8)	(8)	(8)			Efficiencies approved by Council on 24 November 2011.
Fire	7,484	(64)	(64)	(64)		09_3	Decrease in requisition.
		(101)	(101)	(101)	0.00		
Incremental Reduction		**(101)**	**0**	**0**			

ITEM 7

TREASURY MANAGEMENT STRATEGY 2012/13

Report by Chief Financial Officer

SCOTTISH BORDERS COUNCIL

9 February 2012

1 PURPOSE AND SUMMARY

1.1 **This report proposes the Treasury Management Strategy for 2012/13 for Council approval.**

1.2 (a) The CIPFA Code requires the Council to approve an annual Treasury Management Strategy which has been through the appropriate scrutiny and is presented at the same time as the Council's Financial Plans.

(b) **Appendix 1** contains the Treasury Management Strategy 2012/13 and this incorporates the Prudential and Treasury Indicators for the next three years.

2 RECOMMENDATIONS

2.1 **It is recommended that the Council:-**

(a) Approves the Treasury Management Strategy contained in Appendix 1; and

(b) Approves the Prudential and Treasury Indicators set out in paragraph 4.8.

3 BACKGROUND

3.1 The Council approved the Treasury Management and Investment Strategies for 2011/12 at the Council on 10 February 2011. The requirements that underpin these Strategies are set out in CIPFA (Chartered Institute of Public Finance & Accountancy) *Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes* (the CIPFA Code).

3.2 The Local Government Investments (Scotland) Regulations 2010 require the Council by law to take into account the CIPFA Code and *The Prudential Code for Capital Finance in Local Authorities* also published by CIPFA. The Finance Circular 5/2010 contains the ministerial consent to authorities in relation to powers to invest.

3.3 As part of the process of developing the Treasury Management Strategy the Audit Committee have a scrutiny role prior to the Strategies being approved by Council and Audit Committee considered and recommended the attached Strategies for Council approval at their meeting on 26 January 2012.

3.4 The Treasury Management Strategy 2012/13 has been reformatted to incorporate the Annual Investment Strategy and the proposed Prudential and Treasury Indicators for the next 3 years.

3.5 During December 2011 the Chief Financial Officer, exercising delegated authority, authorised additional long term borrowing through the Public Works Loan Board (PWLB) and borrowed an additional £7.5m over 10 years on a maturity repayment basis at 3.37% per annum interest. This was within the approved borrowing limits and still results in the Council being in an under-borrowed position.

4 TREASURY MANAGEMENT STRATEGY

4.1 The Treasury Management Strategy (the Strategy) is set out in **Appendix 1**.

4.2 The document's construction differs from previous years in that the Treasury Management and the Investment Strategies have been combined into a single strategy.

4.3 The Strategy covers two main areas:

(a) Capital:

- The capital plans
- The prudential indicators

(b) Treasury Management:

- The current treasury position

- Treasury indicators which provide boundaries for the treasury risk and activities of the Council
- Prospects for interest rates
- Borrowing Strategy
- Policy on Borrowing in Advance of Need
- Debt Rescheduling
- Annual Investment Strategy
- Creditworthiness Policy
- Performance Indicators
- Monitoring and Reporting
- Treasury Management Consultants and Advisers
- Member and Officer Training

4.4 The Strategy has been amended to incorporate the Permitted Investments and limits for the Common Good and Trust Funds following the approval of their Investment Strategy by Council in December 2011. In addition, and for completeness, the Pension Fund has also been included but only for the element of that is managed in-house by the Council. The externally managed Pension Funds are governed by the Statement of Investment Principles, which were approved by the Pension Fund Sub-Committee in June 2010.

4.5 The Strategy reflects the impact of Administrations Draft Capital Financial Plan 2012/13 – 2021/22 and incorporates the impact of Waste Treatment Facility Public Private Partnership (PPP) project on the balance sheet and the Prudential Indicators.

4.6 The Strategy also reflects the additional borrowing proposals for the National Housing Trust and lending to Registered Social Landlords which are both subject to the Scottish Government providing Consent to Borrow for this expenditure.

4.7 The implications of paragraphs 4.5 and 4.6 have resulted in updated Debt and Investment projections and revised Prudential and Treasury Indicators.

4.8 The following table summarises the updated Prudential and Treasury Indicators identified within the Strategy, and the Page references are to the pages in **Appendix 1.**

Indicator Reference	Indicator	Page Ref.	2012/13	2013/14	2014/15
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure Limits	5	£28.7m	£24.3m	£24.2m
PI-2	Capital Financing Requirement (CFR)	6	£276.8m	£294.7m	£288.7m
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	7	9.59%	9.84%	10.31%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	7	(£0.01)	(£0.01)	(£0.01)
External Debt Indicators					
PI-5	Actual Debt	8	£256.2m	£282.7m	£284.7m
PI-7a	Operational Boundary (inc. Other Long Term Liabilities)	9	£272.3m	£288.0m	£287.9m
PI-7b	Operational Boundary (exc. Other Long Term Liabilities)	9	£213.8m	£215.0m	£216.9m
PI-8a	Authorised Limit (inc. Other Long Term Liabilities)	9	£304.7m	£323.9m	£318.2m
PI-8b	Authorised Limit (exc. Other Long Term Liabilities)	9	£246.2m	£250.9m	£247.2m
Indicators of Prudence					
PI-6	(Under)/Over Net Borrowing against the CFR	8	(£42.4m)	(£21.3m)	(£21.8m)
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt	12	£273.3m	£288.0m	£287.9m
TI-2	Upper Limit to Variable Interest Rates based on Net Debt	12	£95.3m	£100.8m	£100.8m
TI-3	Maturity Structure of Fixed Interest Rate Borrowing 2012/13	12	**Lower**		**Upper**
	Under 12 months		0%		20%
	12 months to 2 years		0%		20%
	2 years to 5 years		0%		20%
	5 years to 10 years		0%		20%
	10 years and above		20%		100%
TI-4	Maximum Principal Sum invested greater than 364 days	22	20%	20%	20%

5 IMPLICATIONS

5.1 Financial

There are no additional financial implications in relation to this report.

5.2 Risk and Mitigations

The key purpose of subjecting the Treasury Management Strategy to Audit Committee scrutiny is to ensure that they are satisfied with this element of the risk management framework for the treasury management function within the Council. These strategies provide the parameters and guidance for making the appropriate investment and borrowing decisions for the Council.

5.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Head of Legal and Democratic Services, the Head of Audit and Risk, and the Clerk to the Council have all been consulted and their comments have been incorporated in the final report.

6.2 The Audit Committee received a draft copy of the Strategy to review and scrutinise at their meeting on the 26 January 2012.

Approved by

Chief Financial Officer **Signature David Robertson**

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Treasury & Capital Manager, 01835 825016

Background Papers:

Previous Minute Reference:
Executive, 10 February 2011, Item
Pension Fund Sub-Committee, 23 June 2010, Item

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Treasury & Capital Team can also give information on other language translations as well as providing additional copies.

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

APPENDIX 1

SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT STRATEGY
(incorporating the Annual Investment Strategy)

2012/13

Finance
Resources Department
Version Draft v 4.0
Approved: [Council 9 February 2011]

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1 Purpose and Scope

1.1 The Council is required to receive and approve, as a minimum, three main reports on Treasury activity each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

1.2 This is the first, and most important of these reports, and covers:

a) The Capital Plans of the Council (including prudential indicators);

b) The Treasury Management Strategy (how the investments and borrowings are organised) including treasury indicators; and

c) An Investment Strategy (the parameters on how investments are to be managed).

1.3 The remaining two reports are the Mid Year Treasury Management Report and the Annual Treasury Report.

1.4 The Treasury Management issues covered by this report include:

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

1.5 These elements cover the requirements of the Local Government in Scotland Act 2003, the CIFPA Prudential Code, the CIPFA Treasury Management Code (the CIPFA Code) and the Scottish Government Investment Regulations.

1.6 The Treasury Management Strategy covers the treasury management activities for the Council, the Scottish Borders Council Pension Fund, the Common Goods and the Trust Funds which are managed by the Council.

2 Background

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A major aspect of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.3 The Prudential and Treasury Indicators (summarised in **Annex A**) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. These Indicators have been developed in line with the CIPFA Code. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

2.4 CIPFA defines treasury management as:

"The management of the local authority's investments and 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. "

3 The Capital Prudential Indicators 2012/13 – 2014/15

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

3.1 Capital Expenditure (Prudential Indicator PI-1)

a) This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the 2012/13 financial planning cycle. The Capital Financial Plan 2012/13 – 2021/22 includes the following capital expenditure forecasts:

Capital Expenditure (PI-1) £m	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Engineering Infrastructure	12.2	12.0	11.7	7.6	6.9
Land & Property	11.0	14.7	11.7	9.5	6.1
Business Infrastructure	1.4	3.1	1.8	4.2	6.7
Fleet	1.4	2.7	2.7	2.2	3.7
Other	1.1	0.5	0.8	0.8	0.8
Total	**27.1**	**33.0**	**28.7**	**24.3**	**24.2**

3.2 Other Long Term Liabilities

a) The financing need identified above in paragraph 3.1 a) excludes other long term liabilities, such as Public Private Partnerships (PPP) and leasing arrangements which already include borrowing instruments. The proposed Financial Plans for 2012/13 include the commencement of the operation of the Easter Langlee Waste Treatment Plant which is a PPP project. The impact of this on other long term liabilities will be as follows:

Other Long Term Liabilities £m	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Waste Treatment Plant	0	0	0	16.2	0

3.3 Other Relevant Expenditure

a) The Council has, and anticipates to have, additional expenditure which will be eligible for consideration as Capital Expenditure for the purposes of the Treasury and Prudential Indicators. This expenditure relates to initiatives where the Council has or is planning to apply for a Consent to Borrow from the Scottish Government. The two key areas not included in paragraph 3.1 or 3.2 above are the planned borrowing to fund lending to the National Housing Trust (NHT) (approved by Council 10 February 2011) and the proposed lending to Registered Social Landlords (RSLs) (approved by Council 15 December 2011). The consent has been received for the NHT borrowing, but no application has yet been made for the RSLs and the estimated amounts are as follows:

Other Relevant Expenditure £m	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Icelandic Banks	1.3	0.0	0.0	0.0	0.0
Early Retiral/Voluntary Severance	1.0	0.0	0.0	0.0	0.0
National Housing Trust (NHT)	0.0	0.0	4.0	0.0	0.0
Registered Social Landlords	0.0	0.0	5.0	0.0	0.0
Total	**2.3**	**0.0**	**9.0**	**0.0**	**0.0**

3.4 Capital Financing Assumptions

a) The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a financing need (borrowing).

Capital Expenditure £m	**2010/11 Actual**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**	**2014/15 Estimate**
Capital Expenditure	27.1	33.0	28.7	24.3	24.2
Other Relevant Expenditure	2.3	0.0	9.0	0.0	0.0
Total Expenditure	**29.4**	**33.0**	**37.7**	**24.3**	**24.2**
Financed by:					
Capital receipts	3.6	0.4	1.4	0.1	0.0
Developer Contributions	0.4	0.2	0.1	0.1	0.1
Govt. General Capital Grants	5.9	11.9	9.1	8.5	13.0
Govt. Specific Capital Grants	0.6	0.3	0.1	0.1	0.2
Other Grants & Contributions	0.3	1.3	1.5	1.2	4.0
Borders Railway Capital Grant	3.9	3.4	1.3	0.0	0.0
Plant & Vehicle Fund	1.3	2.6	2.7	2.2	2.9
Net financing need for the year	**13.4**	**12.9**	**21.5**	**12.1**	**4.0**

3.5 The Council's Borrowing Need (the Capital Financing Requirement – Prudential Indicator PI-2)

a) The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure identified above, which has not immediately been paid for (e.g. via grants), will increase the CFR.

b) Following accounting changes the CFR includes any other long term liabilities (e.g. PPP schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £60.3m of such schemes within the 2011/12 CFR.

c) The Council is asked to approve the CFR projections below:

Capital Financing Requirement (PI-2) £m	**2010/11 Actual**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**	**2014/15 Estimate**
Total CFR (PI-2)	**262.9**	**265.5**	**276.8**	**294.7**	**288.7**
Movement in CFR represented by:					
Net financing need for the year (above)		12.9	21.5	12.1	4.0
Less scheduled debt amortisation and other financing movements		(10.3)	(10.2)	5.8	(10.0)
Movement in CFR		**2.6**	**11.3**	**17.9**	**(6.0)**

3.6 Affordability Prudential Indicators

a) The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The updated indicators are as follows:

(i) **Actual and estimates of the ratio of financing costs to net revenue stream. (Prudential Indicator PI-3)**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Ratio of Financing Costs to Net Revenue Stream (PI-3)	9.33	8.80	9.59	9.84	10.31

The estimates of financing costs include current commitments and the proposals in the Financial Plans for 2012/13.

(ii) **Estimates of the incremental impact of capital investment decisions on council tax. (Prudential Indicator PI-4)**

This indicator identifies the revenue costs associated with proposed changes to the operational three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental Impact Of Capital Investment Decisions On The Band D Council Tax (PI-4):

£	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Council tax - band D	(0.04)	(0.01)	(0.01)	(0.01)

4 Treasury Management Strategy

The capital expenditure plans set out in Section 3.1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1 Current Portfolio Position

a) The Council's treasury portfolio position at 31 March 2011, with forward projections is summarised below. The table shows the actual external borrowing, against the capital borrowing need (the CFR), highlighting any over or under borrowing.

£m	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
External Debt:					
Borrowing at 1 April		166.7	176.3	197.7	209.7
Expected change in borrowing		9.6	21.4	12.0	4.0
Borrowing at 31 March	**166.7**	**176.3**	**197.7**	**209.7**	**213.7**
Other long-term liabilities (OLTL) at 1 April		62.2	60.3	58.5	73.0
Expected change in OLTL		(1.9)	(1.8)	14.5	(2.0)
OLTL at 31 March	**62.2**	**60.3**	**58.5**	**73.0**	**71.0**
Total Actual External Debt at 31 March (Prudential Indicator PI-5)	**228.9**	**236.6**	**256.2**	**282.7**	**284.7**
Investments:					
Total investments at 1 April		(16.3)	(10.3)	(9.9)	(9.5)
Expected change in Investments		6.0	0.4	0.4	0.4
Investments at 31 March	**(16.3)**	**(10.3)**	**(9.9)**	**(9.5)**	**(9.1)**
Net borrowing	**212.6**	**226.4**	**246.3**	**273.2**	**275.6**
CFR – the borrowing need (see (b) below)	**277.1**	**294.7**	**288.7**	**294.5**	**297.4**
(Under) / over borrowing (Prudential Indicator PI-6)	**(64.5)**	**(68.3)**	**(42.4)**	**(21.3)**	**(21.8)**

b) Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these (PI-6) is that the Council needs to ensure that its total borrowing, net of any investments, (shown as net borrowing above) does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing in advance of need is not undertaken for revenue purposes.

c) It is confirmed by the Chief Financial Officer that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the Financial Plans 2012/13.

4.2 Treasury Indicators: Limits to Borrowing Activity

a) The Operational Boundary (Prudential Indicator PI-7)

This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total Operational Boundary (PI-7a)	**261.3**	**272.3**	**288.0**	**287.9**
Less: Other long term liabilities	(60.3)	(58.5)	(73.0)	(71.0)
Operational Boundary exc. Other Long Term Liabilities (PI-7b)	**201.0**	**213.8**	**215.0**	**216.9**

b) The Authorised Limit For External Borrowing(Prudential Indicator PI-8)

(i) A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term. This level of borrowing would not be sustainable in the longer term.

(ii) This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all Local Authority plans, or those of a specific council, although this power has not yet been exercised.

(iii) The proposed Authorised Limit for the Council is as follows:

Authorised Limit £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total Authorised Limit (PI-8a)	**289.7**	**304.7**	**323.9**	**318.2**
Less: Other long term liabilities	(60.3)	(58.5)	(73.0)	(71.0)
Authorised Limit exc. Other Long Term Liabilities (PI-8b)	**229.4**	**246.2**	**250.9**	**247.2**

4.3 Prospects for Interest Rates

a) The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Annex B** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

b) Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

c) Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

d) This challenging and uncertain economic outlook has a several key treasury mangement implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;

e) There will remain a cost of carrying capital because any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

f) **Annex C** contains a more comprehensive Economic Background narrative from Sector.

4.4 Borrowing Strategy 2012/13

a) The Council is currently maintaining an under-borrowed position, although did undertake additional long term borrowing (£7.5m) in December 2011. This means that the capital borrowing need (the CFR), has not been fully funded by loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains both prudent and cost effective as investment returns are low and counterparty risk is high. Over the medium term there is an anticipated reduction in capital support from central government and the Council's aim is to assume it does not over borrow against future capital expenditure levels.

b) Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

(i) *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

(ii) *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

c) Any decisions will be reported to Members at the next available opportunity.

d) Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any 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 indicators are:

(i) **Upper limits on fixed interest rate exposure. (Treasury Indicator TI-1)**

This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

(ii) **Upper limits on variable interest rate exposure. (Treasury Indicator TI-2)**

This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

(iii) **Maturity structure of borrowing. (Treasury Indicator TI-3)**

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

(iv) The following table highlights the proposed indicators for the Treasury Management Strategy:

£m	2012/13	2013/14	2014/15
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt (TI-1)	272.3	288.0	287.9
Limits on variable interest rates based on net debt (TI-2)	95.3	100.8	100.8
Maturity Structure of fixed interest rate borrowing 2012/13 (TI-3)			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	20%
2 years to 5 years		0%	20%
5 years to 10 years		0%	20%
10 years and above		20%	100%

4.5 Policy on Borrowing in Advance of Need

a) 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.

b) Borrowing in advance may only be undertaken in circumstances where it can be demonstrated that, over the medium term, the borrowing will only be for the purposes of funding capital. This requires the Council to demonstrate that borrowing does not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for the current and following twelve month period.

c) Borrowing in advance is defined as any borrowing undertaken by the local authority which will result in the total external debt of the local authority exceeding the capital financing requirement (CFR) of the local authority for the following twelve month period. This twelve month period is on a rolling twelve month basis.

d) The Chief Financial Officer has the authority to borrow in advance of need under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. The Chief Financial Officer will adopt a cautious approach to any such borrowing, and a business case to support the decision making process must consider:

(i) the benefits of borrowing in advance,

(ii) the investment risks created by the existence of investments at the same time as additional borrowing being outstanding, and

(iii) how far in advance it is reasonable to borrow considering the risks identified.

e) Any such advance borrowing should be reported through the mid-year or annual Treasury Management reporting mechanism.

4.6 Debt Rescheduling

a) As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

b) The reasons for any rescheduling to take place will include:

(i) the generation of cash savings and / or discounted cash flow savings;
(ii) helping to fulfil the treasury strategy;
(iii) enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

c) Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

d) All rescheduling will be reported to the **Executive** at the earliest meeting following its action.

5 Investment Strategy 2012/13

5.1 Investment Objectives and Policy

a) The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular) and the CIPFA Code.

b) The primary objectives of the Council's investment strategy are:

(i) the safeguarding or **security** of the re-payment of the principal and interest of investments on a timely basis; and
(ii) the **liquidity** of its investments.

c) The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

d) The borrowing of monies purely to invest or on-lend, without relevant Scottish Government consent, and make a return is unlawful and this Council will not engage in such activity.

e) The Council will ensure:

(i) It maintains a policy covering the categories of investment types it will invest in, the minimum acceptable credit criteria for choosing investment counterparties with adequate security, and the monitoring of their security. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications

(ii) It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's Prudential Indicators covering the maximum principal sums invested.

f) The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

g) The intention of the strategy is to provide security of investment and minimisation of risk.

5.2 Policy On Longer-Term Investments

a) With the introduction of The Local Government Investments (Scotland) Regulations 2010, investments by Scottish local authorities were no longer limited to one year. This Council accordingly wishes to be able to make use of this new power at times when such investing is both appropriate and attractive.

b) The longer cash is invested for, the longer the period during which an institution holding the Council's money could potentially default. This Council will manage such risk exposure by requiring a higher level of creditworthiness for all institutions with which money is placed for periods in excess of one year. This higher level of creditworthiness will not be solely dependent on the use of credit ratings but will also take into account Credit Default Swap (CDS) spreads and other information.

c) In addition, longer term investments are subject to greater interest rate risk in as much as there is more potential during a longer period for interest rates to move unexpectedly compared to the expectations at the time the investment was made. This Council manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with the control of risk

5.3 Council Permitted Investments

a) The Code on the Investment of Money by Local Authorities requires the Council approval of all the types of investments to be used and set appropriate limits for the amount that can be held in each investment type. These types of investments are termed **Permitted Investments** and any investments used which have not been approved as a permitted investment will be considered ultra vires.

b) The permitted investments instruments which may be used in the forthcoming year are detailed in **Annex D**, and include the following:

Cash type instruments

- Deposits with the Debt Management Account Facility (DMADF) (UK Government);
- Deposits with other local authorities or public bodies;
- Money Market Funds;
- Call account deposit accounts with financial institutions (banks and building societies) meeting Creditworthiness Policy;
- Term deposits with financial institutions (banks and building societies) meeting Creditworthiness Policy;
- UK Government Gilts and Treasury Bills;

Other investments

- Investment properties;
- Loans to third parties, including soft loans;
- National Housing Trust
- Pooled Investment Vehicles

c) Details of the risks, mitigating controls and limits associated with each of these permitted categories are shown in **Annex D.**

d) Common Good and Pension Fund permitted investments are also shown at **Annex D**, and where applicable the same counterparty selection criteria as below will be applied.

e) The Treasury Management Strategy only applies to the funds managed in-house for the Pension Fund, as the externally invested funds are covered by the Statement of Investment Principles and other associated policy documents.

5.4 Creditworthiness Policy

a) For those permitted cash type investments managed in-house, the Chief Financial Officer will maintain a counterparty list in compliance with the following Investment Counterparty Selection Criteria. These criteria will be reviewed and revised as considered necessary and submitted to Committee for approval as necessary. This counterparty criteria sets out the method for selecting appropriate counterparties which the Council will choose from, rather than defining what its investments are.

b) The Chief Financial Officer will maintain a counterparty list consistent with the Investment Counterparty Selection Criteria and will revise the criteria and submit them to Committee for approval as necessary. In addition the types of investment to be made needs to be set out (Permitted Investments).

c) The rating criteria use **the lowest common denominator method** of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution (from Fitch, Standard & Poors and Moody's credit rating agencies). For instance if an institution is rated by three agencies, two meet the Council's criteria, the other does not, the institution will fall outside the lending criteria and no investments will be placed with that institution. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

d) Surplus funds may from time to time be placed in Permitted Investments with institutions that satisfy the Council's credit rating criteria applying the lowest common denominator principle to the three international rating agencies.

5.5 Counterparty Selection Criteria

a) These institutions must either be UK Local Authorities or UK Incorporated Institutions, UK Building Societies and Banks incorporated in the European Economic Area entitled to accept deposits through a branch in the UK. The Council may also use the UK Government including in the form of gilts and the Debt Management Account Deposit Facility (DMADF).

b) The criteria for providing a pool of high quality investment counterparties is:

High Credit Quality

c) The Council's current minimum credit rating limits for individual institutions are:

	Standard & Poors	Moodys	Fitch
Short-Term Debt Rating	A-1	P-1	F1
Long-Term Debt Rating	A	A2	A
Individual (Viability) /Financial Strength	N/A	C	C (BB+)
Support Rating	N/A	N/A	3

N/A – Not Assessed

- Short and long-term ratings assess the capacity of an organisation to make timely payments of financial obligations.

- Individual / Financial Strength ratings (which are only provided by Moody's and Fitch) are an assessment of how well the organisation can 'stand on its own feet' without the support of others. Scored from A (best) to E. The Fitch Individual ratings are being replaced by Viability ratings, which are similar and an equivalent rating has been applied.

- Support ratings (which are only provided by Fitch) assess the propensity and ability of other parties to support an organisation. Scored 1 (best) to 5.

d) **Annex E** contains an overview of a table published by the Audit Commission to summarise the rating systems used by Fitch, Moody's and Standard & Poors for long and short term debt. **Annex F** contains a summary of the Individual / Financial Strength and Support Rating.

e) From time to time the rating agencies may put an institution on either a 'positive or negative watch' which means that their credit rating is under review. Following the watch period the rating may go up or down or indeed remain unaltered. Dependent upon any revised rating an institution may then remain on, be removed from or come back onto our approved counterparty list.

f) If an institution is put on 'negative watch' by any one of the rating agencies where the current credit rating is higher than the lowest acceptable criteria for the Council, an assessment of all relevant market information will be taken, and subject to this assessment the counterparty will continue to be on the approved list, although with a shortened period for investment of no more than 1 month. The maximum deposit amount will also be reduced to £2m.

g) If an institution is put on negative watch and is on the lowest acceptable criteria for the Council, no funds will be deposited with them until any revised rating has been assessed and meets the counterparty criteria.

h) If an institution, which already has Council funds deposited with it, is put on negative watch by any of the rating agencies and is already on the lowest acceptable criteria or is downgraded to below the acceptable rating criteria, the Council will enter discussions with the counterparty to establish if the funds can be returned early, however this will be subject to an appropriate cost versus risk assessment of the specific situation.

Sovereign Rating

i) If the institution is non-UK, then the country in which it is domiciled must have a minimum Sovereign long term rating of AAA.

Guaranteed Banks with Suitable Sovereign Support

j) The Council may use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

   (i) wholesale deposits in the bank are covered by a government guarantee;

   (ii) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and

   (iii) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

Part Nationalised banks

k) If the UK Government has a significant stakeholding in an institution, the institution can be view as a part nationalised bank. Currently Lloyds Banking Group (including the Bank of Scotland) and Royal Bank of Scotland can be classified as Part Nationalised Banks. These institutions will be included in the Counterparty list for as long as they continue to be part nationalised or the meet the Council's minimum rating criteria in c) above.

Council's Own Banker

l) The Council's own banker (currently Bank of Scotland plc) will be maintained on the Council's counterparty list in situations where rating changes may mean this is below the above criteria. This is to allow the Council to continue to operate normal current account banking facilities, or their overnight and short-term investment facilities.

m) The Bank of Scotland plc (a subsidiary of Lloyds Banking Group) in its capacity as the Council's own banker, will be maintained on the approved counterparty list, on the basis that funds may not on any day exceed £5m. This limit is subject to any excess that arises on the banking being cleared on the next available banking day and the need to maintain sufficient funds to fulfill the automated next available banking day payments to ensure they are processed efficiently.

5.6 Country, Group and Sector Considerations

a) Due care will be taken to consider the country, group and sector exposure of the Council's investments.

Country Limits

b) In part the country selection will be chosen by the credit rating of the Sovereign state. In addition no more than **10%** will be placed with any non-UK country at any time.

Institutional Sector Limits

c) Limits will be applied to the overall amount lent out to any one sector at any one time in order to limit sector specific exposure risk, as follows:

UK Building Societies	**£25 m**
Banks	**£35 m**
UK Local Authorities	**£40 m**
UK Government Debt Management Office	**£unlimited**
UK Gilts and Treasury Bills	**£20 m**
Institutions covered by Government Guarantee	**£10 m**
Part Nationalised Banks	**£35 m**
Money Market Funds (AAA)	**£20 m**

Institutional sector limits require to be significant as local authorities tend to be cash rich at much the same time, which would make lending difficult if we did not have the potential for placing large cash sums with banks and building societies. These limits will be monitored regularly for appropriateness.

Group Limits

d) Limits will be applied to the overall amount lent out to institutions within the same group at any one time in order to limit group specific exposure risk, as follows, and subject to the parent company having a minimum AA- long term rating:

Group of Banks	**£10m**

5.7 Use of Additional Information

a) Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, it is recognised that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “Credit Default Swaps” and overlay that information on top of the credit ratings.

b) Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.8 Individual Institution Time and Monetary Limits

a) The time and monetary limits for institutions on the Council's Counterparty List are as follows:

	Money Limit	Time Limit
UK Building Societies	£5 m	Up to 364 days
Banks	£5 m	Up to 364 days
UK Local Authorities (i)	£40 m	Up to 364 days
UK Government Debt Management Office	Unlimited	Up to 6 months
UK Gilts & Treasury Bills	£20m	Up to 364 days
Government Guaranteed Institutions	£2 m	Up to 6 months
AAA rated Money Market Funds	£5m	Up to 6 months
Part Nationalised Banks	£5 m	Up to 6 months
Council's Own Banker (ii)	£5 m	Up to 364 days, but overnight if it falls below the minimum criteria

Note:

(i) No individual limit will be applied on lending to a UK local authority, other than it must not exceed the relevant sector limit of £40m.

(ii) Further to Sections 5.5, 5.6 and 5.8 in the event that the Council's own banker's rating falls below the criteria the time limit on the money deposited will be reduced to overnight and short term (1 month or less) investment facilities.

(iii) All individual limits will be applied to an organisation subject to that amount not breaching any relevant country, sector or group limit.

b) As mentioned previously, the Treasury function manages the funds of the Council, the Pension Fund, the Common Good Funds and Trust Funds. When applying the limits set out in both paragraphs 5.6 and 5.8, these limits will apply to the cumulative investment with an institution from the Council, the Pension Fund, the Common Good Funds and Trust Funds.

5.9 The Monitoring of Investment Counterparties

a) The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief

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

b) The criteria for choosing counterparties set out above provide a sound approach to investment in “normal” market circumstances. Under the exceptional current market conditions, the Chief Financial Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out in this Strategy. These restrictions will remain in place until the Chief Financial Officer is of an opinion that the banking system has returned to “normal”. Similarly the time periods for investments may be restricted.

5.10 Types of Investments

a) For institutions on the approved counterparty list, investments will be restricted to safer instruments (such as deposits). Currently this involves the use of the DMADF and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

b) Investments arranged via the London money market will be made through approved brokers. The current list of approved brokers comprises:

(i) ICAP Securities Limited
(ii) Sterling International Brokers Limited
(iii) Tradition (UK) Limited.

5.11 Investment Strategy

In-house funds

a) Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations

b) Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

2011/ 2012 0.50%
2012/ 2013 0.50%
2013/ 2014 1.25%
2014/ 2015 2.50%

c) There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England’s 2% target rate.

d) The estimates used for the budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.50%
2013/14	0.50%
2014/15	1.50%
2015/16	2.00%

Investment Treasury Indicator And Limit (Treasury Indicator TI-4) - total principal funds invested for greater than 364 days.

e) These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

f) The treasury indicator and limit proposed is: -

Maximum principal sums invested > 364 days (TI-4)			
£m	2012/13	2013/14	2014/15
Principal sums invested > 364 days	20%	20%	20%

g) For its cash flow generated balances, the Council will seek to utilise its business overnight accounts, 15 and 30 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

5.12 Icelandic Bank Investments

a) Repayments from Heritable are expected to be complete by October 2012.

b) The Icelandic Supreme Court has confirmed the preferential creditor status of Landsbanki. Repayment will be made in a mix of pounds sterling, US Dollars, Euros and Icelandic Krona. The repayments (except for Icelandic Krona) will be converted to sterling upon receipt in the Council's bank account. Icelandic Krona conversion is subject to separate arrangements because of issues around currency controls.

5.13 Risk Benchmarking

a) A development arising from the revised Treasury Management Codes is the need for consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess performance, however discrete security and liquidity benchmarks are new requirements and their application is more subjective in nature. Additional background to the approach taken is attached at **Annex G**.

b) These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons, in the Mid-Year or Annual Report.

Security

c) The Council's **maximum** security risk benchmark for the current portfolio, when compared to historic default tables, is:

0.04% historic risk of default when compared to the whole portfolio.

Liquidity

d) In respect of this area the Council seeks to maintain:

Bank Overdraft £250,000 (with the ability to increase this to £3,000,000)

e) Liquid short term deposits of at least £3,000,000 available with a week's notice.

f) Weighted Average Life benchmark is **expected to be 0.5 years** (equivalent to an weighted average life of 6 months), with a **maximum of 1.00 years**

Yield

g) Local measures of yield benchmarks are:

Investments – **Internal returns above the 7 day LIBID rate**

h) At the end of the financial year, the Chief Financial Officer will report on its investment activity as part of the Annual Treasury Report.

6 Performance Indicators

6.1 The CIPFA Code requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

6.2 **Debt Performance Indicators**

a) Average "Pool Rate" charged by the Loans Fund compared to Scottish Local Authority average Pool Rate.
Target is to be at or below the Scottish Average for 2011/12.

b) Average rate movement year on year
Target is to maintain or reduce the average borrowing rate for the Council versus 2010/11.

6.3 **Investment Risk Benchmark Indicators** for Security, Liquidity and Yield, as set out in paragraph 5.13:

6.4 **Loan Charges:**

The actual Loan Charges for 2012/13 will be at or below the Revenue Budget estimate contained in the Council's Financial Plans to be approved on 10 February 2011, which is estimated as follows:

£m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Interest on Borrowing	11.2	10.8	11.4
Investment income	(0.1)	(0.1)	(0.1)
Capital Repayments	10.2	10.4	10.0
Total Loan Charges	**21.3**	**21.3**	**21.3**

The above budget excludes the revenue impact of funding the cost of the NHT and the lending to RSLs as these are assumed to be revenue neutral overall, and have still to be fully quantified. As information that is more detailed becomes available, this projection will be updated, if necessary.

6.5 The results of these indicators will be incorporated into in the Treasury Management Annual Report.

7 Monitoring And Reporting

7.1 In line with the CIPFA Code the following formal reporting arrangements will be adopted:

Requirement	Purpose	Decision making body	Frequency
Treasury Management Policy Statement	Reviews and Revisions	Council	As required
Treasury Management & Investment Strategy	Reporting of Annual Strategy	Council	Annually prior to start of new financial year
Treasury Management Strategy and / or Treasury Investment Strategy	Updates and revisions	Council	As appropriate
Treasury Management Mid-Year Report	Mid-Year Performance Report	Council	Annually in October/November of the current year
Treasury Management Annual Report	Annual Performance report for previous financial year	Council	Annually following the revenue outturn report to Executive
Treasury Management Monitoring Reports	Including Revenue Budget Monitoring	Executive	Revenue reported as part of the regular monitoring reports, otherwise as and when appropriate
Treasury Management Practices		Executive	As appropriate
Scrutiny of Treasury Management & Investment Strategy	Detailed scrutiny prior to annual approval by Council	Audit Committee	Annually
Scrutiny of Treasury Management Performance		Audit Committee	As appropriate

8 Treasury Management Consultants and Advisers

8.1 The Council uses Sector as its external treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

8.2 As part of the service provided, Sector meet with Council officers on a quarterly basis to review the current Treasury Management and Investment Strategies and review the service provided to the Council.

8.3 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

8.4 The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review

9 Member and Officer Training

9.1 The 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. This Council will address this important issue by:

a. **Elected Members**

(i) Working with members of the Audit Committee to identify their training needs

(ii) Working with Sector to identify appropriate training provision for elected members

b. **Officers** dealing with treasury management matters will have the option of various levels of training including:

(i) The CIPFA/ Treasury Management Professional Qualification

(ii) Treasury courses run by the Council's advisers

(iii) Attendance at CIPFA treasury management training events

(iv) Attendance at the CIPFA Scottish Treasury Management Forum and information exchange via the Treasury Management Forum network

(v) On the job training in line with the approved Treasury Management Practices (TMPs).

ANNEXES

ANNEX A
SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator Reference	Indicator	Page Ref.	2012/13	2013/14	2014/15
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure Limits	5	£28.7m	£24.3m	£24.2m
PI-2	Capital Financing Requirement (CFR)	6	£276.8m	£294.7m	£288.7m
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	7	9.59%	9.84%	10.31%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	7	(£0.01)	(£0.01)	(£0.01)
External Debt Indicators					
PI-5	Actual Debt	8	£256.2m	£282.7m	£284.7m
PI-7a	Operational Boundary (inc. Other Long Term Liabilities)	9	£272.3m	£288.0m	£287.9m
PI-7b	Operational Boundary (exc. Other Long Term Liabilities)	9	£213.8m	£215.0m	£216.9m
PI-8a	Authorised Limit (inc. Other Long Term Liabilities)	9	£304.7m	£323.9m	£318.2m
PI-8b	Authorised Limit (exc. Other Long Term Liabilities)	9	£246.2m	£250.9m	£247.2m
Indicators of Prudence					
PI-6	(Under)/Over Net Borrowing against the CFR	8	(£42.4m)	(£21.3m)	(£21.8m)
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt	12	£273.3m	£288.0m	£287.9m
TI-2	Upper Limit to Variable Interest Rates based on Net Debt	12	£95.3m	£100.8m	£100.8m
TI-3	Maturity Structure of Fixed Interest Rate Borrowing 2012/13	12	**Lower**		**Upper**
	Under 12 months		0%		20%
	12 months to 2 years		0%		20%
	2 years to 5 years		0%		20%
	5 years to 10 years		0%		20%
	10 years and above		20%		100%
TI-4	Maximum Principal Sum invested greater than 364 days	22	20%	20%	20%

ANNEX B
Interest Rate Forecast 2011/2015

Sector's Interest Rate View	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 Month LIBID	**0.87%**	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 Month LIBID	**1.16%**	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 Month LIBID	**1.65%**	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
5yr PWLB Rate	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
Bank Rate															
Sector's View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	**2.25%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	**2.25%**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	**2.25%**	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	**3.33%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	**3.33%**	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	**3.33%**	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	**4.24%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	**4.24%**	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.24%**	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	**4.26%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	**4.26%**	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	**4.26%**	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

ANNEX C
Economic Background

1 Global Economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers solid optimistim for the outlook for 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either “orderly” or “disorderly”. Most commentators currently view that it is now inevitable that Greece will have to exit the Eurozone in 2012.

There is also growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and likely difficulties in implementing the required level of fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

The US economy has encouraged with some positive news around the start of 2012 but any improvement in the weak rate of growth is likely to only generate slow progress in reducing the high level of unemployment which is acting as such a dampener on the economy. With Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started “Operation Twist” in an effort to re-ignite the rate of growth in the economy. However, high levels of consumer indebtedness, a moribund housing market together with stubbornly high unemployment, will continue to weigh heavily on consumer confidence and so on the abiltity to generate a healthy and consistent rate of economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite a major thrust to tighten monetary policy during 2011 to cool inflationary pressures which are now subsiding. However, some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

2 UK Economy

The Government’s austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has been weak and concerns at the risk of a technical recession (two quarters of negative growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forcecasts for 2012 and beyond have been revised lower on a near quarterly basis. With concerns of a potential return to recession, the Bank of England embarked on a second round of Quantitive Easing to stimulate economic activity. It appears very likely that there will be another expansion of quantitative easing in quarter 1 2012 in order to stimulate economic growth.

Unemployment. With the impact of the Government's austerity strategy resulting in steadily increasing unemployment during 2011, there are limited prospects for any improvement in 2012 given the prospects for weak growth.

Inflation and Bank Rate. For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation starting quarter 1 of 2012 at 4.8%, having peaked at 5.2% in September 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

AAA rating. The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy for deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and, with the safe haven status from Eurozone debt also drawing in external investment, the pressure on rates has been down, and looks set to remain so for some time.

3 Sector's Forward View

Economic forecasting remains troublesome with so many extermal influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume 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 mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Source: Sector Treasury Services Ltd, January 2012

Annex D

Credit and Counterparty Risk Management

Permitted Investments, Associated Controls and Limits for Scottish Borders Council, Common Good and Trust Funds and In-house Managed Pension Fund

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
Cash type instruments					
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	£40m and maximum 1 year.	£5m and maximum 1 year.	£40m and maximum 1 year.
c. Money Market Funds (MMFs) **(Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a “AAA” rated status from either Fitch, Moody’s or Standard & Poors.	£5m per fund/£20m overall	£5m per fund/£20m overall	£5m per fund/£20m overall

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
d. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
e. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
f. UK Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£20m, maximum 1 year.	£5m, maximum 1 year	£20, maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
Other types of investments					
g. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios, some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	£30m	£25m	N/A
h. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£30m	£1m	N/A
i. National Housing Trust	These are loans to a Special Purpose Vehicle to allow it to purchase new homes under the NHT umbrella. These loans represent either 65% or 70% of the purchase price, the remainder being funded by the developer. The loan is redeemed after a 5 to 10 year period when the properties are sold.	Loan redemption arises when the homes are sold. Interest payments are made to the Council by the SPV from rental payments in the intervening period. Both the loan amount and associated interest payments are underwritten by Scottish Government	£4m per phase up to a maximum of £8m	N/A	N/A

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
j. Pooled Investment Vehicles	These use an investment vehicle, for long term capital growth and income returns. These are liquid assets in the sense that there is a market value, however there is a high risk of volatility in the short and medium term in relation to market values and dividend income streams.	The Common Good Investment Strategy sets out the risk/return criteria and the asset allocation for these investments. It also sets out the mechanisms for monitoring and managing the performance of the funds.	£0	All Capital Balances nominated by the Common Good & Trust Fund Working Groups as approved by Council up to a maximum of £4m	N/A

Use of External Fund Managers

It is the Council's policy to use external fund managers for part of its investment portfolio in relation to the pooled investment fund for the Common Good Fund, Trust Funds and the Scottish Borders Council Pension Fund. This Annex reflects the approved policies around the Common Good and Trust Fund Investment Strategy but specifically excludes, as allowed by the regulations, the work undertaken by External Fund Managers in relation to the Scottish Borders Council Pension Fund.

The fund managers are contractually committed to keep to the Council's approved investment strategy.

ANNEX E

Long and Short Term Credit Ratings

Audit Commission Grading#	**Fitch**		**Moody's**		**Standard and Poor's**	
	Long Term	**Short Term**	**Long Term**	**Short Term**	**Long Term**	**Short Term**
Extremely strong grade	AAA	F1+	Aaa	P-1	AAA	A-1+
Very strong grade	AA+ AA AA-	F1+ F1+ F1+	Aa1 Aa2 Aa3	P-1 P-1 P-1	AA+ AA AA-	A-1+ A-1+ A-1+
Strong grade But susceptible to adverse conditions	A+ A A-	F1+ / F1 F1 F1	A1 A2 A3	P-1 P-1 / P-2 P-1 / P-2	A+ A A	A-1+ / A-1 A-1 A-1 / A-2
Adequate Grade	BBB+ BBB BBB-	F2 F2 / F3 F3	Baa1 Baa2 Baa3	P-2 P-2 / P-3 P-3	BBB+ BBB BBB-	A-2 A-2 / A-3 A-2
Speculative Grade	BB+ BB BB-	B B B	Ba1 Ba2 Ba3	NP * NP NP	BB+ BB BB-	B-1 B-2 B-3
Very Speculative Grade	B+ B B-	B B B	Ba1 Ba2 Ba3	NP NP NP	B+ B B-	- - -
Vulnerable Grade	CCC CCC CCC CC C	C C C C C	Caa1 Caa2 Caa3 - Ca	NP NP NP NP NP	CCC+ CCC CCC- CC C	C C C C C
Defaulting Grade	D	D	C	NP	D	D

for the purpose of standardisation based on Standard and Poor's credit rating definitions.
* NP – Not Prime

Source: Audit Commission adaptation of information from Fitch, Moody's and Standard & Poor's

Shaded area donates credit ratings that are within the current policy criteria for Scottish Borders Council.

ANNEX F

Individual Strength/Support Ratings

Moody's	Bank Financial Strength
Superior intrinsic financial strength	**A**
Strong intrinsic financial strength	**B**
Adequate intrinsic financial strength	**C**
Modest intrinsic financial strength	**D**
Very modest intrinsic financial strength	**E**

Fitch	Bank Individual (Viability) Ratings
A very strong bank	**A (aa – aaa)**
A strong bank	**B (bbb – aa-)**
An adequate bank	**C (bb+ – bbb-)**
A bank with weaknesses	**D (ccc – bb)**
A bank with very serious problems	**E (c – ccc-)**
A bank that has defaulted	**F**

Fitch	Support Ratings
A bank for which there is an extremely high probability of external support.	**1**
A bank for which there is a high probability of external support	**2**
A bank for which there is a moderate probability of support	**3**
A bank for which there is a limited probability of support	**4**
A bank for which external support, although possible, cannot be relied upon	**5**

Shaded area donates credit ratings that are within the current policy criteria for Scottish Borders Council.

Annex G

Benchmarking and Monitoring Security, Liquidity and Yield

A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks.

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

Yield

These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – **Internal returns above the 7 day LIBID rate**

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Liquidity

This is defined as "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). In respect of this area the Council seeks to maintain:

- Bank overdraft - £250,000 (with the ability to increase this to £3,000,000)
- Liquid short term deposits of at least £3,000,000 available with a week's notice.

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 – shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- **WAL benchmark is expected to be 0.5 years, with a maximum of 1.00 years**.

Security of the investments

In context of benchmarking, assessing security is a much more 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 Poors). 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 an average of historic cumulative default rates sourced from the three main rating agencies for the last 20-30 years.

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.000%	0.015%	0.052%	0.103%	0.155%
AA	0.028%	0.059%	0.115%	0.174%	0.250%
A	0.077%	0.220%	0.398%	0.561%	0.741%
BBB	0.231%	0.687%	1.203%	1.767%	2.370%

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 a "A" long term rating would be 0.077% of the total investment (e.g. for a £1m investment the average loss would be £770). 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.

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

- **0.04% historic risk of default when compared to the whole portfolio.**

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in 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.

GLOSSARY OF TERMS

CIPFA	Chartered Institute of Public Finance and Accountancy
CIPFA Code	Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)
CFR	Capital Financing Requirement is the estimated the level of borrowing or financing needed to fund capital expenditure.
Consent to Borrow	Para 1 (1) of Schedule 3 of the Local Government (Scotland) Act 1975 (the 1975 Act) effectively restricts local authorities to borrowing only for capital expenditure. Under the legislation Scottish Ministers may provide consent for local authorities to borrow for expenditure not covered by this paragraph, where they are satisfied that the expenditure should be met by borrowing.
Gilts	A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term “gilt” or “gilt-edged security” is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.
LIBID	London Interbank Bid Rate The rate at which banks bid on Eurocurrency Deposits, being the rate at which a bank is willing to borrow from other banks.
MPC	Monetary Policy Committee
Other Long Term Liabilities	Balance sheet items such as Public Private Partnership (PPP), and leasing arrangements which already include borrowing instruments.
PPP	Private Finance Initiative
Prudential Indicators	The Prudential Code sets out a basket of indicators (the Prudential Indicators) that must be prepared and used in order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code.
QE	Quantitative Easing
Treasury Indicators	These consist of a number of Treasury Management Indicators that local authorities are expected to ‘have regard’ to, to demonstrate compliance with the Treasury Management Code of Practice.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
1	Updated 2012 TMS doc	04/01/12	LM
2	Updated for revised Indicators	12/01/12	NC/LM
3	Final Draft for Audit Committee	19/01/12	LM
4	Final Draft for Council	31/01/12	LM

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Lynn Mirley can also give information on other language translations as well as providing additional copies.

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ITEM 8

CAPITAL FINANCIAL PLAN RESOURCES 2012/13 TO 2021/22

Report by CHIEF FINANCIAL OFFICER

SCOTTISH BORDERS COUNCIL

9 FEBRUARY 2012

1 PURPOSE AND SUMMARY

1.1 **This report advises the Council of the estimated capital resources for 2012/13 to 2021/22.**

1.2 The report outlines the process supporting the compilation of the draft Capital Financial Plan plus the introduction of a long term 7 year Strategic Plan to support the traditional 3 year Operational Plan.

1.3 The financing constraints are identified along with the major issues facing the Council and its capital planning process.

1.4 It is acknowledged that a plan covering a 10 year period will be subject to change as political, financial and service priorities evolve.

2 RECOMMENDATIONS

2.1 **It is recommended that the Council:-**

(a) Notes the estimated Capital Resources for 2012/13 to 2021/22;
and

(b) Proceeds to approve the Administration's Draft Capital Financial Plan for 2012/13 to 2021/22.

3 BACKGROUND

3.1 The current Capital Financial Plan was approved by the Council in June 2011 and covered the five year period from 2011/12 to 2015/16. This plan has been subject to regular review with monitoring reports being presented to Executive in September, October and December 2011, with the final monitoring report in the financial year 2011/12 to be presented to the Executive on 14 February 2012.

3.2 In the process of updating the Capital Financial Plan, all departments have engaged in the development of individual Project Outline Business Cases (POBCs) and these have been assessed and scored by the Asset Managers and the Treasury and Capital Manager.

3.3 In reviewing the current Capital Financial Plan it was identified that a significant element of the programme for the first 3 years (the Operational Plan) was already committed.

3.4 As advised in last year's Capital Plan report, the draft Capital Financial Plan 2012/13 to 2021/22 has been developed on a 10 year basis. It has been split into a 3 year Operational Plan and an indicative Strategic Plan for the remaining 7 years. This is in line with the recommendations flowing from the review of Capital Planning and Monitoring processes that was undertaken in 2009/10. The Strategic Plan is intended to provide an indication of the level of resources and the type of demands on the Capital Financial Plan. It is acknowledged that this will be subject to continuous refinement and review and be subject to amendment reflecting the priorities of the new Council administration.

4 THE CAPITAL FINANCE SETTLEMENT 2012/13

4.1 The Scottish Government Local Finance Settlement (the Settlement), issued in December 2011, provided a three year General and Specific Capital Grant allocation to the Scottish Borders Council.

4.2 The Settlement for the three years is as follows:

£000	2012/13	2013/14	2014/15
General Capital Grant	9,484	8,774	13,431
Less: Police Authority Capital Allocation	(345)	(317)	(465)
General Capital Grant available to the Council	9,139	8,457	12,966
Specific Capital Grant – Cycling, Walking & Safer Streets	131	121	177

4.3 The level of Capital Grants has been re-profiled and for the General Capital Grant there is an overall reduction due to the change in the funding mechanism for the Flood Prevention support from Scottish Government.

5 CAPITAL RESOURCES 2012/13 TO 2021/22

5.1 The principles of affordability and sustainability have been applied in developing an affordable draft Capital Financial Plan 2012/13 to 2021/22 and are financed by Loan Charges of £21.3m per annum. The £15m per annum 'ceiling' for capital spend (excluding Plant and Vehicle Replacement) for the 7 years of the Strategic Plan has been maintained at an average of £14.2m per annum and reflects future assumptions concerning a reduction in the General Capital Grant and the impact of the central "top slicing" of Flood Prevention funding.

5.2 During the 3 year Operational Plan an additional £8.4m has been provided to reflect the Council contribution to the costs of the South of Scotland Broadband (BD UK) upgrade project.

5.3 The capital receipts assumptions for the funding of the Capital Financial Plan have been revisited and these have been re-profiled to reflect the current market conditions. Overall, the reliance upon capital receipts within the 3 year Operational Plan period has been reduced accordingly.

5.4 However, as a result of re-profiling and/or re-scoping some key projects and block allocations it has been possible to deliver an affordable Capital Financial Plan which for the first two years of the programme contains proposals that do not require any increases in the revenue budget Loan Charges above that previously approved for 2012/13.

6 THE CAPITAL FINANCIAL PLAN 2012/13 TO 2021/22

6.1 The Administration's draft Capital Financial Plan 2012/13 to 2021/22 presented elsewhere on the agenda has been fully reviewed to ensure its affordability and deliverability.

6.2 In developing the draft Capital Financial Plan the following considerations were required to be taken into account:

Engineering & Infrastructure

(a) **Flood & Coastal Protection**

The proposals incorporate revised expenditure profiles and estimates to enable the Council to be best placed to support the 20% required from capital resources to enable bids into the 80% match funding from Scottish Government for these projects. Formal approval for the Galashiels scheme is expected early in 2012/13 and as a result the grossed-up cost of the scheme is shown in the plan, with 80% funding included under Specific Capital grants in the attached appendix. For Selkirk and Hawick, 80% match funding is only likely to be available beyond the timeframe of the 3 year operational plan and for this reason only the Council costs are shown in the plan. Once these schemes are finalised and funding secured, the budgets will be grossed up to show total scheme costs and associated Scottish Government funding.

(b) **Waste Management - Easter Langlee Cell Provision**

This project, following the completion of the first landfill cells, has been identified as requiring additional resources (£300k) above the current approved budget for 2012/13 to enable the completion of the next phase of capping activity and secure the appropriate environmental compliance.

(c) **Waste Management – Easter Langlee Leachate Management**

This project was previously in the Capital Financial Plan for delivery in 2015/16. Work being undertaken on the overall management of the site has identified that this work requires to be accelerated to 2013/14.

Land & Property

(d) **School Estate – Duns PS Relocation**

It is proposed to accelerate an element of the expenditure on this project to enable the advanced design and preparation work to be completed over 2012/13 and 2013/14. This will enable construction to start in 2014/15.

(e) **School Estate – School Capacity Projects & Option Appraisals**

There are several areas of the Borders where school capacity pressures have been identified and more detailed proposals will be brought to Committee at the appropriate time.

The Strategic Plan 7 year timeframe has been populated with expenditure proposals. However due to the evolving pattern of capacity pressures and the need to consider potential strategic rationalisation of the school estate over the medium term, specific projects have not been detailed.

(f) **Community Services – Duns Community Hub and Jim Clark Motor Museum**

The proposals for these two projects have been included within the indicative Strategic Plan timeframe of the Draft Capital Financial Plan. This is to enable the proposed projects to be delivered in a natural progression from the Duns PS relocation project. These projects are still at an early stage of development and no external funding assumptions have been included.

(g) **Environment & Infrastructure Property – Wilton Lodge Park**

The proposals for the business case are progressing and these will be brought to Committee during 2012/13. As the business case is not fully evaluated and the remit from the Capital Management Group (CMG) was that this project should be self financing through the incorporation of capital receipts, the project has not been included in the draft Capital Financial Plan at this stage.

(h) **Economy & Regeneration – Selkirk Historic Town Centre Regeneration Project**

This project has been incorporated into the programme with external funding assumptions of £1.3m. The Council's contribution is estimated at £350k. Work is currently ongoing with officers to establish the project scope and develop bids to external funding providers. It should be noted that no external funding commitments have yet been secured.

Business Infrastructure

(i) **Business Applications – Corporate Application Suite (CAS)**

This project, included in the Strategic Plan timeframe reflects the need to upgrade/refresh the core corporate business applications to continue to ensure that these are fit for purpose and enable the continued business transformation process within the Council.

(j) **Technical IT Infrastructure – South of Scotland Broadband (BD UK)**

£8.4m has been included within 2013/14 and 2014/15 to support the Council's contribution to the delivery of the South of Scotland Broadband Project. This project is a key economic development deliverable for the Council and is being progressed jointly with Dumfries and Galloway Council. The Scottish Government has committed an initial £5m to the total cost of the project.

The assumption is that this will be able to be treated as capital expenditure, even though it may require Scottish Government consent.

7 IMPLICATIONS

7.1 Financial

(a) The financial implications are covered in Section 5 of this report.

(b) Pending the confirmation of our General Capital Grant for 2015/16 onwards, the estimated grant shown in the draft Capital Financial Plan 2012/13 to 2021/22 reflects the assumptions used in Section 5.

7.2 Risk and Mitigations

(a) The draft plan contains recommended budgets for a large number of capital projects of varying size and degrees of complexity. There is a risk that, over time, they may not complete within timescales and budget. As projects progress through their development phases and into construction, asset and project managers will monitor them closely in line with the Council's Financial Regulations and Capital Budget Monitoring Code of Practice. They will also identify any variations in costs and/or timing and report them to the Capital Management Group as soon as possible.

(b) Section 6.2 details some of the individual risks within specific projects and how these are to be mitigated.

(c) The cost of creating the infrastructure for the proposed town expansion of Newtown St Boswells has not been able to be accommodated within the proposed draft Capital Financial Plan. Should the housing market recover and house building commence, Developer Contributions may not be able to cover all the associated costs in the required timeframes. A report is currently in development by the Director of Environment & Infrastructure in relation this matter and will be brought to the appropriate Committee in due course.

(d) Scottish Government has indicated that they intend to introduce separate Food Waste collections for urban areas, which would result in additional significant revenue and capital costs. The draft Capital Financial Plan does not include provision for this as the Council proposes to negotiate a compromise on the basis that the new Waste Treatment Plant at Langlee will be able to separate out Food Waste without the need to introduce expensive separate collections.

(e) Several of the projects within the draft Capital Financial Plan are intended to address or avoid negative environmental impacts in relation to the waste management activities of the Council.

7.3 Equalities

Where appropriate, project managers have carried out Equalities Impact Assessments for projects currently under way and will do so for future projects in the Plan.

7.4 **Acting Sustainably**

(a) Elements of the draft Capital Financial Plan, including South of Scotland Broadband, are included on the basis that these deliver key strategic benefits in relation to Scottish Borders economy.

(b) Elements of the draft Capital Financial Plan, including the projects within the Social Work workstream of Land & Property, are about ensuring that social cohesion in the Scottish Borders is supported and enhanced.

(c) There are key, major projects included in the draft Capital Financial Plan which have the primary purpose of protecting (Flood Protection, Leachate Management) and enhancing (Selkirk Town Centre Regeneration Project) the Scottish Borders environment.

7.5 **Carbon Management**

Elements of the proposals contained within the draft Capital Financial Plan are intended to contribute towards the reduction in the Council's carbon emissions. Of particular note are the proposals in relation to the management of closed landfill sites and several of the allocations within the Property & Asset Programme.

7.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

7.7 **Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration or Scheme of Delegation are required.

8 CONSULTATION

8.1 The Head of Audit and Risk, Head of Legal and Democratic Services and the Clerk to the Council have been consulted as part of the preparation of this report, and any comments have been incorporated into the report.

8.2 The Heads of Property and Facilities Management, Engineering and Infrastructure and Business Technology Solutions as the key Asset Managers for the individual themes within the proposed Capital Financial Plan have been consulted and any comments have been incorporated into the report.

Approved by

Chief Financial Officer **Signature David Robertson**

Author(s)

Name	Designation and Contact Number
Paddy Fagan Lynn Mirley	Corporate Finance Manager (01835 825019) Treasury & Capital Manager (01835 825016)

Background Papers:
Re-profiling of Capital Plan 2011/12 > 2015/16, Executive 7 June 2011

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Treasury & Capital Manager can also give information on other language translations as well as providing additional copies.

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Item 9

Capital Financial Plan
2012/13 - 2021/22

Further information on the Council's
Capital Financial Plan is available from:-

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Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

SUMMARY	OPERATIONAL PLAN			Total	STRATEGIC PLAN							Grand Total
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Engineering Infrastructure												
Roads, Bridges, Lighting & Transport	7,367	5,466	6,389	19,222	3,405	3,388	3,588	6,388	3,572	3,388	3,388	46,339
Flood & Coast Protection	1,156	2,452	658	4,266	1,322	1,474	1,000	958	600	800	770	11,190
Waste Management	2,397	1,659	145	4,201	30	180	180	30	280	280	30	5,211
Engineering & Infrastructure - Other	1,311	52	52	1,415	52	52	52	52	52	52	52	1,779
TOTAL ENGINEERING INFRASTRUCTURE	12,231	9,629	7,244	29,104	4,809	5,094	4,820	7,428	4,504	4,520	4,240	64,519
Land & Property												
School Estate	6,939	6,032	3,792	16,763	3,077	4,202	4,240	4,785	5,175	5,175	5,175	48,592
Community Services	395	300	320	1,015	570	981	465	300	300	300	300	4,231
Social Work	210	475	639	1,324	1,893	0	0	0	0	0	0	3,217
Corporate Property	676	150	150	976	150	150	0	0	0	0	0	1,276
Environment & Infrastructure - Property	170	150	150	470	150	0	0	0	0	0	0	620
Regeneration	2,320	1,341	58	3,719	120	330	770	390	0	0	0	5,329
Property & Asset Programme	1,000	1,000	1,000	3,000	1,000	1,165	1,315	1,315	1,315	1,315	1,165	11,590
TOTAL LAND & PROPERTY	11,710	9,448	6,109	27,267	6,960	6,828	6,790	6,790	6,790	6,790	6,640	74,855
Business Infrastructure												
Business Applications	180	246	246	672	87	295	595	595	240	345	595	3,424
Technical IT Infrastructure	1,608	3,972	6,413	11,993	1,133	1,080	780	780	1,135	1,030	780	18,711
TOTAL BUSINESS INFRASTRUCTURE	1,788	4,218	6,659	12,665	1,220	1,375	1,375	1,375	1,375	1,375	1,375	22,135
Fleet												
Plant & Vehicle Fund Replacement	2,650	2,240	2,900	7,790	2,860	2,860	2,860	2,860	2,860	2,860	2,860	27,810
Other Fleet	0	0	750	750	0	0	0	300	450	0	0	1,500
TOTAL FLEET	2,650	2,240	3,650	8,540	2,860	2,860	2,860	3,160	3,310	2,860	2,860	29,310
Other												
Emergency & Unplanned Schemes	500	500	500	1,500	500	500	570	470	470	490	920	5,420
Private Sector Housing Grant	340	340	340	1,020	340	340	340	340	340	340	340	3,400
TOTAL OTHER	840	840	840	2,520	840	840	910	810	810	830	1,260	8,820
Total Capital Plan	**29,219**	**26,375**	**24,502**	**80,096**	**16,689**	**16,997**	**16,755**	**19,563**	**16,789**	**16,375**	**16,375**	**199,639**

Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

Engineering Infrastructure	OPERATIONAL PLAN			Total	STRATEGIC PLAN							Grand Total
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
Roads, Bridges, Lighting & Transport	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Galashiels Developments												
Inner Relief Road 3	10	0	0	10	0	0	0	0	0	0	0	10
Inner Relief Road 4	417	5	0	422	0	0	0	0	0	0	0	422
Burgh Yard Development	22	0	0	22	0	0	0	0	0	0	0	22
Transport Interchange	912	2,651	3,631	7,194	17	0	0	0	0	0	0	7,211
Project Office	40	0	0	40	0	0	0	0	0	0	0	40
Strategic Route Improvements Schemes	1,401	2,656	3,631	7,688	17	0	0	0	0	0	0	7,705
Roads (including RAMP & Winter Damage)	2,000	2,000	2,000	6,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500	23,500
Bridges Asset Management Plan	300	300	300	900	400	400	400	400	400	400	400	3,700
Lighting Asset Management Plan	200	200	200	600	300	300	300	300	300	300	300	2,700
Accident Investigation Prevention Schemes	31	50	50	131	50	50	50	50	50	50	50	481
A72 Dirtpot Corner - Slope Stability	275	0	0	275	0	0	0	0	0	0	0	275
A72 Dirtpot Corner - Road Re-alignment	0	0	0	0	0	0	200	3,000	184	0	0	3,384
Cycling, Walking & Safer Streets	132	121	178	431	138	138	138	138	138	138	138	1,397
Regional Transport Projects	510	0	0	510	0	0	0	0	0	0	0	510
Kelso Town Traffic Mgt Scheme	1,538	109	0	1,647	0	0	0	0	0	0	0	1,647
CCTV Renewals	30	30	30	90	0	0	0	0	0	0	0	90
Festive Lights	250	0	0	250	0	0	0	0	0	0	0	250
Peebles-Innerleithen Shared Access Route	700	0	0	700	0	0	0	0	0	0	0	700
Other Roads, Bridges, Lighting & Transport	5,966	2,810	2,758	11,534	3,388	3,388	3,588	6,388	3,572	3,388	3,388	38,634
Total Roads, Bridges, Lighting & Transport	**7,367**	**5,466**	**6,389**	**19,222**	**3,405**	**3,388**	**3,588**	**6,388**	**3,572**	**3,388**	**3,388**	**46,339**

Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

Engineering Infrastructure	OPERATIONAL PLAN			Total	STRATEGIC PLAN							Grand Total
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Flood & Coast Protection												
Galashiels Flood Protection	679	2,277	333	3,289	0	0	0	0	0	0	0	3,289
Selkirk Flood Protection	252	50	190	492	1,152	1,300	900	762	0	0	0	4,606
Hawick Flood Protection	75	25	25	125	70	74	0	96	500	700	670	2,235
Flood Protection Works, Efficiency and Emergency Measures	150	100	110	360	100	100	100	100	100	100	100	1,060
Total Flood & Coast Protection	**1,156**	**2,452**	**658**	**4,266**	**1,322**	**1,474**	**1,000**	**958**	**600**	**800**	**770**	**11,190**
Waste Management												
Management of Closed Landfill Sites - Dunion	323	139	0	462	0	0	0	0	0	0	0	462
Management of Closed Landfill Sites - Cleugh	323	0	0	323	0	0	0	0	0	0	0	323
Easter Langlee Cell Provision	800	245	0	1,045	0	150	150	0	250	250	0	1,845
Waste Treatment Facility	781	25	0	806	0	0	0	0	0	0	0	806
Wheeled Bins	30	30	30	90	30	30	30	30	30	30	30	300
Easter Langlee Leachate Management	140	1,220	115	1,475	0	0	0	0	0	0	0	1,475
Total Waste Management	**2,397**	**1,659**	**145**	**4,201**	**30**	**180**	**180**	**30**	**280**	**280**	**30**	**5,211**
Engineering & Infrastructure - Other												
Contaminated Land	52	52	52	156	52	52	52	52	52	52	52	520
Borders Railway Project	1,259	0	0	1,259	0	0	0	0	0	0	0	1,259
Total E&I - Other	**1,311**	**52**	**52**	**1,415**	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**1,779**
TOTAL ENGINEERING INFRASTRUCTURE	**12,231**	**9,629**	**7,244**	**29,104**	**4,809**	**5,094**	**4,820**	**7,428**	**4,504**	**4,520**	**4,240**	**64,519**

Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

Land & Property	**OPERATIONAL PLAN**			**Total**	**STRATEGIC PLAN**							**Grand Total**
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
School Estate												
West Linton PS	6,471	1,000	30	7,501	0	0	0	0	0	0	0	7,501
Duns PS relocation	132	340	3,025	3,497	2,280	267	0	0	0	0	0	6,044
School Health & Safety Projects	336	322	350	1,008	350	350	400	400	400	400	400	3,708
School Capacity Projects & Option Appraisals	0	270	387	657	285	2,883	2,886	2,875	3,875	3,875	3,875	21,211
School Refurbishment Projects	0	200	0	200	0	500	752	1,308	698	698	698	4,854
School Dining & Catering Programme	0	0	0	0	162	202	202	202	202	202	202	1,374
Peebles HS Sports Facilities	0	3,900	0	3,900	0	0	0	0	0	0	0	3,900
Total School Estate	**6,939**	**6,032**	**3,792**	**16,763**	**3,077**	**4,202**	**4,240**	**4,785**	**5,175**	**5,175**	**5,175**	**48,592**
Community Services												
Lauder Pavillion/Park	115	0	0	115	0	0	0	0	0	0	0	115
Sports Trusts - Plant & Services	280	280	280	840	280	280	280	280	280	280	280	2,800
Duns Community Hub	0	10	10	20	10	385	165	0	0	0	0	580
Jim Clark Motor Museum Relocation	0	10	30	40	260	296	0	0	0	0	0	596
Community Asset Transfer	0	0	0	0	20	20	20	20	20	20	20	140
Total Community Services	**395**	**300**	**320**	**1,015**	**570**	**981**	**465**	**300**	**300**	**300**	**300**	**4,231**

Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

Land & Property	OPERATIONAL PLAN			Total	STRATEGIC PLAN							Grand Total
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
Social Work	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
TOPS - Residential Care Home Upgrade	140	275	294	709	271	0	0	0	0	0	0	980
TOPS - Telecare	70	130	130	330	130	0	0	0	0	0	0	460
Complex Needs - Central Education Base	0	0	165	165	1,442	0	0	0	0	0	0	1,607
Locality Working	0	50	50	100	50	0	0	0	0	0	0	150
Learning Disability Day Services	0	20	0	20	0	0	0	0	0	0	0	20
Total Social Work	**210**	**475**	**639**	**1,324**	**1,893**	**0**	**0**	**0**	**0**	**0**	**0**	**3,217**
Corporate Property												
Work Style Transformation/Office Accommodation	200	150	150	500	150	150	0	0	0	0	0	800
Integration of Contact Centres/Libraries	356	0	0	356	0	0	0	0	0	0	0	356
Demolition & Site Preparation	120	0	0	120	0	0	0	0	0	0	0	120
Total Corporate Property	**676**	**150**	**150**	**976**	**150**	**150**	**0**	**0**	**0**	**0**	**0**	**1,276**
Environment & Infrastructure - Property												
Cemetery Land Acquisition & Development	50	150	150	350	150	0	0	0	0	0	0	500
Wilton Lodge Park	120	0	0	120	0	0	0	0	0	0	0	120
Total Environment & Infrastructure - Property	**170**	**150**	**150**	**470**	**150**	**0**	**0**	**0**	**0**	**0**	**0**	**620**

Land & Property	**OPERATIONAL PLAN**			**Total**	**STRATEGIC PLAN**							**Grand Total**
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
Regeneration	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
LUPS Strategic Business Land	892	1,277	18	2,187	0	0	0	0	0	0	0	2,187
Kelso Townscape Heritage Initiative	638	24	0	662	0	0	0	0	0	0	0	662
Sunnybrae, Walkerburn	169	0	0	169	0	0	0	0	0	0	0	169
Abbotsford House	500	0	0	500	0	0	0	0	0	0	0	500
31/33 High Street Jedburgh	90	0	0	90	0	0	0	0	0	0	0	90
Hawick 500Yr Commemorative Statue	31	40	0	71	0	0	0	0	0	0	0	71
Selkirk Town Centre Regeneration Project	0	0	40	40	120	330	770	390	0	0	0	1,650
Total Regeneration	**2,320**	**1,341**	**58**	**3,719**	**120**	**330**	**770**	**390**	**0**	**0**	**0**	**5,329**
Property & Asset Programme												
Structural / H&S Works	300	300	300	900	300	465	465	465	465	465	465	3,990
Asbestos Management	100	100	100	300	100	100	100	100	100	100	100	1,000
Building Fabric Upgrades	150	150	150	450	150	150	300	300	300	300	150	2,100
Carbon Reduction Measures	120	120	120	360	120	120	120	120	120	120	120	1,200
Electrical Safety Works	120	120	120	360	120	120	120	120	120	120	120	1,200
Fixed Assets	20	20	20	60	20	20	20	20	20	20	20	200
Heating System Replacement	100	100	100	300	100	100	100	100	100	100	100	1,000
Legionella management	30	30	30	90	30	30	30	30	30	30	30	300
Thermally Efficient Roof Installation	30	30	30	90	30	30	30	30	30	30	30	300
Thermally Efficient Window Installation	30	30	30	90	30	30	30	30	30	30	30	300
Total Property & Asset Programme	**1,000**	**1,000**	**1,000**	**3,000**	**1,000**	**1,165**	**1,315**	**1,315**	**1,315**	**1,315**	**1,165**	**11,590**
TOTAL LAND & PROPERTY	**11,710**	**9,448**	**6,109**	**27,267**	**6,960**	**6,828**	**6,790**	**6,790**	**6,790**	**6,790**	**6,640**	**74,855**

Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

Business Infrastructure	**OPERATIONAL PLAN**			**Total**	**STRATEGIC PLAN**							**Grand Total**
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Business Applications												
ICON Upgrade	49	0	0	49	0	0	0	0	0	0	0	49
Business Systems - Social Work - Homecare & Financial	66	66	66	198	12	0	0	0	0	0	0	210
Business Systems Development	60	150	150	360	50	50	50	50	50	50	50	710
Minor IT Projects	5	30	30	65	25	50	50	50	50	50	50	390
Corporate Applications Suite (CAS)	0	0	0	0	0	195	495	495	140	245	495	2,065
Total Business Applications	**180**	**246**	**246**	**672**	**87**	**295**	**595**	**595**	**240**	**345**	**595**	**3,424**
Technical IT Infrastructure												
Corporate PC Replacement	350	350	350	1,050	350	350	350	350	350	350	350	3,500
IT Disaster Recovery Programme	50	50	50	150	50	50	50	50	50	50	50	500
Unified Communications	96	0	0	96	0	250	0	0	0	250	0	596
Infrastructure & Microsoft Refresh	77	7	0	84	350	50	0	0	355	0	0	839
Replacement of Curricular Networks	980	735	383	2,098	383	380	380	380	380	380	380	4,761
Financial Systems Infrastructure Development	30	30	30	90	0	0	0	0	0	0	0	90
Mobile Device Management (MDM)	25	0	0	25	0	0	0	0	0	0	0	25
South of Scotland Broadband (BDUK)	0	2,800	5,600	8,400	0	0	0	0	0	0	0	8,400
Total Technical IT Infrastructure	**1,608**	**3,972**	**6,413**	**11,993**	**1,133**	**1,080**	**780**	**780**	**1,135**	**1,030**	**780**	**18,711**
TOTAL BUSINESS INFRASTRUCTURE	**1,788**	**4,218**	**6,659**	**12,665**	**1,220**	**1,375**	**1,375**	**1,375**	**1,375**	**1,375**	**1,375**	**22,135**

Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

Fleet	OPERATIONAL PLAN			Total	STRATEGIC PLAN							Grand Total
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
Fleet	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Plant & Vehicle Replacement	2,650	2,240	2,900	7,790	2,860	2,860	2,860	2,860	2,860	2,860	2,860	27,810
Other Fleet	0	0	750	750	0	0	0	300	450	0	0	1,500
Total Fleet	**2,650**	**2,240**	**3,650**	**8,540**	**2,860**	**2,860**	**2,860**	**3,160**	**3,310**	**2,860**	**2,860**	**29,310**
Other												
Biddable Allocations												
Emergency & Unplanned Schemes	500	500	500	1,500	500	500	570	470	470	490	920	5,420
Private Sector Housing Grant												
Private Sector Housing Grant - Adaptations	340	340	340	1,020	340	340	340	340	340	340	340	3,400
TOTAL OTHER	**840**	**840**	**840**	**2,520**	**840**	**840**	**910**	**810**	**810**	**830**	**1,260**	**8,820**

Scottish Borders Council
Capital Financial Plan 2012/13 - 2021/22

Estimated Funding	OPERATIONAL PLAN			Total	STRATEGIC PLAN							Grand Total
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital Fund/Capital Receipts	1,435	100	0	1,535	3,124	695	2,630	1,000	0	0	0	8,984
Developer Contributions	100	100	100	300	100	100	100	100	100	100	100	1,000
General Capital Grant from Scottish Govt.	9,139	8,457	12,966	30,562	9,022	9,022	9,022	9,022	9,022	9,022	9,022	93,716
Specific Capital Grants from Scottish Govt.	674	2,148	508	3,330	138	138	138	138	138	138	138	4,296
Other Grants and Contributions	1,484	1,210	4,043	6,737	108	300	685	185	0	0	0	8,015
Capital Grants (Borders Railway)	1,259	0	0	1,259	0	0	0	0	0	0	0	1,259
Plant & Vehicle Replacement Fund	2,650	2,240	2,900	7,790	2,860	2,860	2,860	2,860	2,860	2,860	2,860	27,810
Borrowing	12,478	12,120	3,985	28,583	1,337	3,882	1,320	6,258	4,669	4,255	4,255	54,559
Total Estimated Funding	**29,219**	**26,375**	**24,502**	**80,096**	**16,689**	**16,997**	**16,755**	**19,563**	**16,789**	**16,375**	**16,375**	**199,639**

Item 10

Building a Successful Borders
The Administration's Programme 2007 to 2012

End of Term Report

In May 2007 the two largest parties on Scottish Borders Council, the Scottish Conservatives and the Scottish Liberal Democrats, together with Aligned Independent members came together to establish a strong and experienced team committed to working together to deliver excellent services and strengthen local communities.

The new Administration set out a clear and comprehensive policy programme to help create and build a successful Scottish Borders for our people, our communities and our Businesses

The 4 years of this Administration has been characterised by success, delivery, achievement and the implementation of our ambitious programme. All against the backdrop of a global recession, increasing demand for services, a considerable real reduction in available resources and some of the severest winter conditions experienced in Scotland.

At the same time we have maintained a strong record of sound financial management and governance. Council Tax has not been increased since 2008 and we continue to have one of the highest collection rates in Scotland. We have set balanced revenue and capital budgets each year and maintained an appropriate level of reserves consistent with our Financial Strategy. We have also delivered over £16m of cash efficiencies as part of a far reaching and comprehensive Business Transformation Programme and this has enabled us to maintain and invest in front line services in the current challenging financial climate. As a result of this programme, Scottish Borders Council is well on the way to becoming a modern, responsive and customer focussed organisation delivering the excellent public services that our communities need.

Some of the key priorities that have been delivered are summarised below. We have made significant progress which demonstrates the strength and effectiveness of this Administration and the commitment we have had to listening and delivering for local people and to Building a Successful Borders that our communities deserve.

1) Delivering for Our People

Invest in our school buildings	✓
Continue to improve safe travel to and from school	✓
Provide £100,000 per year for Borders wide Youth Projects	✓
Improve support for young carers	✓

2) Delivering for Our Communities

Increase European funding of Borders projects	✓
Improve health and social outcomes in partnership with NHS Borders	✓
Achieve better outcomes for older people through engagement and involvement in care services	✓
Provide more enforceable road safety measures	✓

3) Delivering for Our Business

Create a climate in which local business can flourish and grow	✓
Enable local business to bid for and win Council and other public sector contracts	✓
Improve information on the Council web-site on how business can access all sources of grant funding	✓
Seek to improve the mobile phone and broadband networks throughout the Borders	✓

4) Delivering for Our Borders

Deliver value for money and minimise Council Tax increases	✓
Drive up attainment and achievement levels in our schools	✓
Deliver affordable homes to meet the needs of people of the Borders	✓
Support the development of Abbotsford as a major heritage tourist attraction	✓

Further detail of all our priorities and progress is set out on the following pages. It demonstrates a strong record of delivery and what has been achieved will provide a sound platform for the incoming Council following the elections in May 2012.

1) Delivering for Our People

Priority	Status	Work Completed
Invest in our school buildings		• Three new high schools have been delivered – Earlston, Berwickshire and Eyemouth • A major £20m new build and renovation programme is well underway for primary schools. This has delivered new schools at Kingsland, Lauder, Denholm, and major refurbishments at Halyrude and Tweedbank. Clovenfords is currently under construction and West Linton is due to commence in May 2012
Continue to improve safe travel to and from school		• All schools have signed up to having travel plans in place, which identify issues and concerns around the whole journey to school and promote walking, cycling or alternatives to the car for travelling to school
Provide up to £100,000 per year Borders wide for Youth Projects		• A dedicated £100,000 has been provided each year to fund various Borders wide youth projects
Create opportunities for all children to receive two years nursery or pre-school education prior to commencing formal education at age 5		• From August 2010 all children received a nursery place on reaching their 3rd birthday • Considerable progress has been made in partnership with private and voluntary sectors and this area continues to be assessed in light of available resources and also as a result of the growing national priority being put into early years. An Early Years Strategy has been approved by the Council and now moving towards implementation.
Increase the range of opportunities for young people entering further and higher education and apprenticeships, in collaboration with local colleges and universities		• Delivery of our Determined to Succeed programme with the 16+ Learning Choices and Employability Skills Programme has resulted in 91% of school leavers receiving an offer of a positive destination in education, employment or training. However a lot of further work is required to fully achieve this priority

Priority	Status	Work Completed
Increase participation in sport and health promoting activities for all age groups		• Sport Development programmes are operating across the Borders for nine target sports • Ten Sports Festival programmes and the Active Schools Programme Schools are fully supported ensuring that the rich Borders sporting heritage is maintained
Modernise sport facilities across the Borders		• The Scottish Borders Sports Facilities Strategy has been developed • Construction of the first full size third generation (3G) football/rugby pitch in the Borders at Netherdale in Galahsiels has been completed with the pitch ready for use by the end of January 2012 • Modern Sports facilities at the 3 new High Schools are all available for community use • Sports development has been transferred to Borders Sports and Leisure Trust enabling a holistic approach to the provision and development of sport and sports facilities across the Borders
Improve the provision of children's play areas		• Improvements have been made but on an opportunistic basis when funding has become available or through developer contributions as part of new housing developments • A programme for investment has now been developed and is ready for implementation
Improve support for young carers		• The young carer's strategy has been approved and is being implemented

2) Delivering for Our Communities

Priority	Status	Work Completed
Increase European funding of Borders projects through partnership and cooperation with other regions		• Excellent progress has been made over the last four years to maximise the level of European funding coming into the Scottish Borders by working in partnership with businesses, communities and other UK regions. The Scottish Borders is benefiting from European funding investments from LEADER, the European Regional Development Fund, the Scotland Rural Development Programme, and the European Fisheries Fund. Over 500 projects have been allocated over £47 million of competitive EU funding since 2007.
Improve health and social outcomes in partnership with NHS Borders		• The groundbreaking Cheviot project is an integrated approach between the Council NHS Borders and voluntary services for the management and delivery of services to older people. This has seen improvements in day care, local hospital and other care services for older people in the Cheviot Area • Joint work with the Drug and Alcohol Partnership has seen the review and development of services for people with drug and alcohol dependencies • A joint strategy and management structure for mental health services is in place which is a significant step towards full integration of mental health services in the Borders
Implement the actions recommended in the Scottish Borders Poverty Strategy		• Implementation of the actions in Tackling Poverty and Financial Inclusion Strategy is almost complete

Priority	Status	Work Completed
Achieve better outcomes for older people through better engagement and involvement in care services		• With an increasing elderly population, improving outcomes for elderly people has been a priority of our Administration. The 'Transforming Older Peoples Services' programme is a forward thinking plan of action to modernise the provision and delivery of social care services for older people . By implementing these changes we are re-balancing care for older people in the Borders and giving a greater choice and increased range of personalised services. These include more care and support at home or in Housing with Care, along with the delivery of the right kind of support to assist individuals in settling back into home after a hospital stay
Support communities and businesses by assisting them to access and develop alternatives to expensive banking and lending arrangements		• The Council has supported the take-up of Capital Credit by working in partnership with the financial inclusion officer and community support workers, who work closely with financially excluded, vulnerable and homeless people to help them access affordable credit
Introduce more effective neighbourhood management of our environmental services		• The neighbourhood pilot in Berwickshire is complete and has shown significant benefits in terms of delivering improved service standards and outcomes whilst at the same time using fewer resources • The strong commitment to delivering locally responsive services with a locality focus has seen the former Council departments of Technical Services and Planning & Economic Development rationalised and combined into one single department of Environment & Infrastructure. This has not only delivered efficiencies but will provide a joined up approach and better outcomes in terms of the development of the Borders, its regeneration, the environment, transport and the economy. Importantly it will see the delivery of more local and responsive parks, cleansing and roads services through the current roll-out of a neighbourhood approach across the Borders

Priority	Status	Work Completed
Progress flood prevention works in Galashiels, Selkirk, Hawick and Newcastleton		• Ring fenced funding in the capital programme has allowed the progression of a number of flood protection works in Hawick, Galashiels, Selkirk, and Newcastleton, with a number of schemes completed and more planned. Part funding has also been provided by the Scottish Government for the flood scheme in Galashiels. • Flood Orders are in place for Galashiels and Selkirk • A range of community support and resilience measures has also been introduced in towns, such as the provision of sand bags so that communities are better prepared for any flooding event.
Encourage communities to create and take ownership of their own community development plans		• A baseline assessment of which communities have development plans has been completed. Work is now ongoing with specific communities to determine the resources required to put these plans in place • The Council has proactively engaged in a Community Asset Transfer Project as part of a national initiative for public bodies to assist local communities to take responsibility for their own futures. This has included the development of a Community Asset Transfer Policy in consultation with the Development Trusts Association Scotland. The policy provides a framework for transferring Council-owned property assets to community groups and organisations for them to deliver public services, where there is a genuine case for doing so. Alongside this, discussions and negotiations have commenced with community groups for the transfer of facilities such as public halls, community centres and sports facilities
Provide more enforceable road safety measures		• The number of people killed on Borders roads has decreased • Accident Investigation & Prevention sites have been identified • A speed limit review of A and B-class roads has been completed. • A Road Safety Plan for the Scottish Borders has been agreed and is now in place.

Priority	Status	Work Completed
Improve safety measures on main arterial A-routes in the Borders		• Route based weather forecasting in conjunction with the met-office has been trialled on priority winter routes
Support the establishment of allotment sites		• Allotment sites have been established and supported across the Borders - Kelso have negotiated an allotment site at the race course, Eyemouth have leased an area at the rear of the new high school and in Selkirk screen planting has been undertaken in partnership with the allotment committee
Introduce pilot schemes of using motion detectors and solar power in street lighting		• LED lights have been trialled in Clovenfords and Galashiels as an option for reducing power consumption. A report on the trial will be brought forward in early 2012
Modernise public transport		• Implementation arrangements for construction of the Waverley Railway have been successfully passed to Transport Scotland who are taking construction forward with Network Rail. This should see trains operating by 2014 • Over £5m has also been approved within in our Capital Plan to deliver a Transport Interchange as part of the future phases of the Galashiels Inner Relief Road. The Interchange project is currently in its design phase and will not only promote improved connections between all means of sustainable transport but will also help realise the full benefits of the Borders Railway • A review of the Passenger Transport service is currently underway and includes a comprehensive review of Bus Services
Promote car-sharing schemes		• There has been significant promotion of car sharing within the Council, through internal publications and also external promotion through SBConnect and local press. There are now over 300 members of Tripshare Borders the web-site promoting car sharing • Priority parking has been established at Council HQ for staff who car share

3) Delivering for Our Businesses

Priority	Status	Work Completed
Create a climate in which local businesses can flourish and grow		• A range of business support programmes have been successfully delivered including the national Business Gateway services, £125,000 in Scottish Borders Business Fund grants, a pilot of retail support grants and two European Regional Development Fund business projects approved • The Council has worked closely with the Chamber of Commerce, Export Association and Social Enterprise Chamber to better understand local business issues and promote business opportunities, including access to funding. The turnover of Social Enterprise Chamber members has increased from £43m in 2007 to £65m in 2010
Promote the Borders as a business friendly destination for inward investment		• The Inward Investment Project is almost complete. Inward Investment Website has been delivered and is live and is a key part of promoting Inward Investment to the area. Promotional brochures have been delivered and contacts established with UK Trade & Investment and Scottish Government. Targeted marketing will continue throughout 2011/2012
Enable local businesses to bid for and win council and other public sector contracts		• A supplier development programme has been developed and delivered to enable local business to be better positioned to win Council work. In 2010/11there were 7 events with 725 attendees which was a significant rise from 141 attendees across 5 events in 2009/10. • At its meeting on 26 January 2012 the Council endorsed the continued support given to local businesses and local suppliers to enable them to bid for and win Council contracts. Almost a third of Council spend on goods, services and works is now with local suppliers.

Priority	Status	Work Completed
Improve information on the Council web-site on how business can access all sources of grant funding		• The business section of the Council website refreshed in 2010 to provide better information for business including information on grant funding. There are links to The Our Scottish Borders website which is the Inward Investment website. This information was carried through into the Council's new website launched in October 2011.
Support the creative industries including encouraging the development of Borders based digital broadcasting and production companies		• South of Scotland Creative Enterprise Initiative project has been completed. This has seen the recruitment of creative industries posts in Scottish Borders and Dumfries and Galloway and the delivery of a programme of activity to support the creative industries sector. Funding has been secured to carry out sectoral research. • No real progress on the development of Borders based digital broadcasting and production companies has been made.
Encourage tourists to stay in the Borders and promote outdoor tourism and events		• A programme of international, national and regional events continues to be delivered including 3 Scotland A rugby matches at Netherdale, the Tour of Britain Grande Depart and Tour of Britain ride events, the Jim Clark Rally and the Borders Music & Comedy Festival. • The core path network continues to be maintained and developed and significant promotional and marketing activity is being carried out about the network. • Overall Tourist numbers are remaining constant over the last 2 years with a slight downward longer term trend.

Priority	Status	Work Completed
Seek to improve the mobile phone and broadband networks throughout the Borders		• As one of the most access deprived areas in Scotland improving digital and communications infrastructure has been a priority as a means of helping address Social and Economic issues. We have fully implemented the South of Scotland Broadband Pathfinder project, providing faster high capacity communication facilities allowing the Council to give a better, more responsive and accessible service to local people and communities. • Through the South of Scotland Alliance we have also approved an ambitious plan to deliver next generation broadband to every home and business in the south of Scotland. The project, which is currently with the Scottish Government to seek a share of UK funding, is one of the single largest infrastructure projects for the south of Scotland and its importance to the future of the region cannot be underestimated.

4) Delivering for Our Borders

Priority	Status	Work Completed
Deliver value for money and minimise Council Tax increases	✓	• Council Tax has not increased since 2008 and the Council continues to have one of the highest collection rates in Scotland • Over £16m of cash efficiencies have been delivered as part of a comprehensive Business Transformation Programme which has enabled the Council to maintain invest in front line services.
Guarantee that the Council Tax will not be increased to pay for the Borders Railway	✓	• Council Tax has not increased since 2008 and the Railway is moving forward into its construction phase with Transport Scotland and Network Rail
Drive up attainment and achievement levels in our schools	✓	• Attainment level for S4, S5 and S6 pupils has continued to increase • The Curriculum for Excellence is currently being implemented across all our schools. There has also been an improving trend in inspection reports across our schools
Protect our rural schools	✓	• A small schools policy has been developed and is in place
Deliver affordable homes to meet the needs of the people of the Borders through effective joint work with local Housing Associations	✓	• As an area with some of the lowest wages in Scotland, providing good quality affordable housing is essential. In 2010/11, a total of 174 affordable houses were delivered in partnership with RSL's, which is a significant increase on the totals for previous years • A decision has been made to provide on-lending to Borders Alliance RSL's which will enable them to progress the development of affordable housing • A localised mortgage scheme is being developed with a Building Society. Under the scheme the Council will act as a guarantor which will enable people to obtain mortgages where they would previously not have been able to.

Priority	Status	Work Completed
Defend the character of the Borders by raising standards of building design, including renewable requirements		• In order to protect and enhance the character of our built environment the Scottish Borders Design Forum has been established and 'Place-making and Design' planning guidance has been produced including training for Elected Members and Officers • The Scottish Building regulations regarding improved renewable energy use have been implemented
Promote locally the use and generation of renewable energy		• Work has been ongoing and continuing in partnership with Community Energy Scotland (CES), Energy Saving Trust, and Scottish Government on increasing awareness and uptake of renewable energy (RE) opportunities amongst householders and businesses. • Energy Fairs and workshops have been run to increase awareness of RE options for community groups and individuals. Information on RE is being included as part of the delivery of Home Insulation Schemes and Universal Home Insulation Schemes • The establishment of the Borders Renewable Energy Agency is in its early stages and when up and running will provide a resource to promote and deliver RE solutions across the Borders
Continue to improve our recycling rates		• Our commitment and investment in reducing waste and the amount going to landfill has seen waste recycling rates increase from 8% in 2005 to 40% in 2011. The next stage of this commitment is the construction and operation of a state of the art Waste Treatment Facility which will further reduce waste going to landfill. The contract for the facility was signed in April 2011 and with construction due to commence in March 2012.
Simplify the Council web-site to make it more user-friendly		• The new Council website was launched in October 2011. The site is designed around how customers want to access services, gain information about the Council and its services and do business with the Council.

Priority	Status	Work Completed
Support the development of Abbotsford House as a major heritage tourist attraction		• Funding has been awarded to support the development of Abbotsford House as a major heritage tourist attraction for the Borders. The Abbotsford Visitor Centre is currently being constructed and SBC are designing and developing a number of associated tourism products linked to Abbotsford.
Improve our success rate in winning lottery and other grant funding for Borders projects		• With the Council's continued support, there has been success for Borders projects through People's Millions for projects such as Cardrona Pump'n'Jump track, and Selkirk Rugby Club Synthetic Outdoor Training Pitch. These successes a promoted via a range of local events and the media. • Our Community Grant scheme continues to be actively promoted and supported awarding over £100,000 each year to support numerous local community projects. However, whilst the number of community groups accessing lottery or community grant funding is above our target the overall trend is downwards.

Key

- Priority complete

- Priority not complete but some work has been progressed

- Little or no progress with the priority