ITEM 4

FINANCIAL STRATEGY 2013/14 – 2017/18

Report By Chief Financial Officer

SCOTTISH BORDERS COUNCIL

7 February 2013

1 PURPOSE AND SUMMARY

1.1 **This report seeks approval for the financial strategy for the Council covering the period 2013/14 – 2017/18.**

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; and,

c) provides stability in resource planning and service delivery.

This strategy addresses a number of important issues which must be considered in setting the budget for the coming year. For the first time a 5 year financial plan has been developed to assess the likely level of resources available over that period and the budgetary adjustments that will be required to ensure the Council's financial plans remain prudent and sustainable in the longer term. Firm figures are only available from the Finance settlement for 2013/14 and 2014/15 and consequently it is recognised that the financial strategy will be adapted over time to respond to changing circumstances. The strategy refines the approach to setting council balances using a risk based approach first adopted as part of the 2012/13 budget process. The risk register has been fully reviewed in compiling the updated financial strategy and a recommendation is made regarding the level of unallocated balances.

2 RECOMMENDATIONS

2.1 **It is recommended that Council approves the financial strategy for 2013/14 – 2017/18 as set out in section 3.1 and agree to maintain unallocated balances of £5.614m in 2013/14 as set out in the risk register in appendix 1.**

3 Financial Strategy 2013/14 - 2017/18

3.1 Background

The financial strategy set out in this paper recognises the continuing difficult economic outlook. Informed opinion has concluded that the current recession will last longer and bite deeper than previously envisaged. The economic outlook has a direct bearing on public expenditure with the need for tight fiscal constraint to be maintained for the foreseeable future. This requires a financial strategy which raises the funds required by the Council to meet approved service levels in the most effective manner, manages the effective deployment of those funds in line with the Council's corporate objectives and approved service plans and provides stability in resource planning and service delivery.

This strategy also recognises the need to ensure that the Council's budget is targeted so that it:-

- provides the most effective stimulus to the wider economy,
- protects those who are most vulnerable in society,
- recognises the need to continue providing good value for money.

The strategy reflects the Council's duty to set a prudent, sustainable budget, to invest in core services, to work effectively with partner organisations - assisting them in the delivery of their strategic objectives where possible, to protect council tax payers and ensure service charges remain as affordable as possible for residents of the Scottish Borders.

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

- **freeze council tax in each year of the budget;**
- **set a prudent, sustainable budget in line with available resources;**
- **continue to invest in infrastructure through a sustainable capital programme financed by £21.3m loans charges per annum;**
- **provide a £13m loan facility to registered social landlords operating in the Scottish Borders as a stimulus to house building and wider economic development;**
- **maximise income while keeping fees charged to service users at an affordable level;**
- **invest in business transformation and efficiency projects in each year of the five year plan to deliver long term financial savings and service benefits, and,**
- **maintain unallocated reserves of £5.614m for 2013/14 in line with the assessed risk register.**

3.2 Aggregate External Finance

It is assumed the full level of AEF, estimated at £197.7m, after adjusting for the transfer of police and fire resources and excluding specific grants, will be deployed in setting the 2013/14 revenue budget. This level of funding is conditional upon council tax again being frozen at 2007/08 levels. AEF in 2014/15 is projected to be £197.3m.

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 five years. All other council tax bands vary as a set proportion of the band D figure. The Scottish Borders council tax product, following a review of the properties, collection rates and levels of bad debt provision, is estimated as £50.926m in 2013/14 and £51.126m in 2014/15. Over the 5 year period, the council tax product derived from increasing numbers of homes (partly resulting from council backed investment in house building and the positive impact of the Borders Railway) is expected to increase.

3.4 Council Tax – 2nd Homes

Council has a policy of applying a 10% discount to long term empty dwellings and 2nd homes which is the minimum discount allowable under the Council Tax (Discount for Unoccupied Dwellings) (Scotland) regulations 2005. This provides a budget of £0.715m per annum which is ring fenced for affordable housing in the Scottish Borders. The Government has recently consulted on changes to these regulations and these will be submitted to parliament in due course. The consultation raises the prospect for the Council to levy a discretionary surcharge of up to 100% of council tax on second homes in future. The financial strategy reflects the current practice of allowing a 10% discount for 2nd homes in the area.

3.5 Reserves

3.5.1 The Council maintains a number of funds and balances which are reported to elected members at regular intervals during the financial year. Table 1 below shows the projected balance on each fund at 1 April 2013.

Table 1 Funds and Balances	1 April 2013 (Estimated) £'000
Statutory Funds	
Corporate Property Repairs and Renewals Fund	28
Plant and Vehicles Renewals Fund	2,263
Insurance Fund	1,398
Capital Fund Excl Developer Contributions	3,367
General Fund – Earmarked	
Devolved School Management	740
Specific Departmental Reserves	1,904
Issues identified in this report	1,615
General Fund – Non-Earmarked	5,614
Total	16,629

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 is subject to scrutiny by the Council's auditors and other external agencies.

3.5.2 On 9th February 2012 the Council agreed to adopt a Corporate Financial Risk Register (an updated version of which is attached at Appendix 1) as the basis for setting reserve levels in 2012/13 and future years. This approach considers issues including the failure by managers to enact effective budgetary control, severe weather events, the economic downturn, potential contractual claims and unplanned emergencies in deriving an appropriate level of unallocated balances.

3.5.3 A review of the major risks facing the Council has been undertaken by senior finance officers and these are 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.

3.5.4 The risk based approach 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.

3.5.5 There are, in addition, a number of issues which will have a bearing on the level of unallocated balances and which require to be considered in an updated analysis of unallocated balances.

Municipal Mutual Insurance

3.5.6 MMI is an insurance company limited by guarantee and not having a share capital. The Company suffered substantial losses between 1990 and 1992 and these losses reduced MMI's net assets to a level below the minimum regulatory solvency requirement. In September 1992 MMI ceased to write new, or to renew, general business insurance. A contingent Scheme of Arrangement under Section 425 of the Companies Act 1985 became effective on 21 January 1994. The former Borders Regional Council was a creditor of MMI, and as such SBC became a Scheme Creditor under the Scheme of Arrangement in 1996.

The majority of claims related to occupational disease claims, mainly mesothelioma (asbestos). At the time it was thought that MMI would be able to "run off" its remaining liabilities and continue to pay agreed claims in full. It was anticipated that this process would continue for at least 20 years. In the event that this could not continue, a "trigger event" would be initiated and Scheme Creditors would have to pay a claw back.

In anticipation of a possible trigger event but in the hope that a solvent run off would still be possible, the Council noted a contingent liability in the 2011/12 accounts. It is understood however that a solvent run off of MMI is no longer anticipated and that this contingent liability will now crystallise. Consequently it will be necessary to make a provision of £0.388m in the accounts to fund a claim against SBC as an MMI creditor. A full report on this issue was considered by Council on the 31 January 2013.

Winter

3.5.7 Members will recall that £0.565m of the general fund reserves have previously been allocated to winter. Early indications are that expenditure this year in excess of budget will require this funding to be drawn down to support winter thereby reducing the unallocated balance and that the sums noted will require a provision in the accounts.

Both these items will be reflected in the 9 month monitoring report to be submitted to Executive on the 19 February 2013.

Drawdown of balances to support the revenue and capital budget.

3.5.8 The 5 year revenue plan assumes the drawdown of £0.2m in 2014/15 from reserves to fund early retiral / voluntary severance. This will assist the Council in delivering ongoing reductions in the pay bill. The capital plan also assumes that £0.45m will be allocated from reserves upon receipt of external match funding for the Selkirk High School synthetic pitch.

Unallocated balances

3.5.9 Given the calls on reserves noted above, issues identified in the risk register and risks inherent in setting the revenue budget, members are recommended to maintain an unallocated general fund equivalent to £5.614m) in 2013/14. The unallocated balance projected at the 31st March, before adjustments for police and fire reserves, is sufficient to cover 58% of the risks identified in the risk register should they materialise.

Technical Adjustments

3.5.10 It should be noted that the projected balances exclude any technical adjustments which are required as part of year end accounting processes. In 2011/12 these adjustments were broadly neutral and did not materially affect the level of reserves but it is possible that future adjustments may make a material impact, positively or negatively, on the final balances.

3.6 Treasury Management Strategy 2013/14

This forms a key aspect of the Council's overall financial management strategy. The Treasury Management Strategy, submitted elsewhere on the agenda for approval, sets out the arrangements for financing the Council's capital investment plan, the associated prudential indicators, how the treasury function will be organised, and an investment strategy setting out the parameters governing how the Council's investments are to be managed.

3.7 Capital Investment

The updated 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 and these 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 5 years at £21.3m per annum. This will be kept under review in light of the prevailing economic condition and opportunities for debt re-structuring. The Council has significant revenue resources tied up in capital assets and work will continue to identify surplus property for disposal in order to reduce revenue running costs and deliver capital receipts.

3.8 Loan facility to Borders based Registered Social Landlords (RSL's).

Council agreed the principle of lending to Borders Based RSL's at its meeting of 15 December 2011 and a report elsewhere on this agenda now seeks permission to provide a £13m loan facility to 3 RSL's. It is envisaged that these security backed loans will assist the development of up to 163 additional affordable housing units which have been previously identified and prioritised via the Council's Strategic Housing Investment Plan (SHIP). This initiative if approved will also require Scottish Government "consent to borrow" and will provide a major policy stimulus to the local economy.

3.9 Bad Debts

Income collection, including council tax, may be adversely affected by the difficult economic conditions The budget assumes that the contribution to the bad debt provision will remain at £0.125m for sundry debt and £0.715m for council tax for 2013/14 and this will be kept under review over the five year period.

3.10 Risks presently un-quantified in the Revenue budget

There are two further specific areas of concern with regard to risks in the budget process for 2013/14 onwards.

3.10.1 Welfare Reform

The implications of Welfare Reform have not been quantified in the financial model due to the lack of specific information with respect to the complex nature of Government's proposals. While longer term proposals will be far reaching, the immediate effects on the Council's Finances in 2013/14 are thought at this stage to be limited, beyond the immediate issues associated with Council tax benefit and the implementation of universal credit set out for 2013/14 in the 5 year financial model.

3.10.2 Auto Enrolment

A second area of unfunded risk relates to Auto Enrolment in the pension fund which is due to commence in July 2013. It is not possible at this stage to quantify the effects of auto enrolment with any degree of certainty due to the diverse nature of posts across the council. A general estimate assumes that 50% of staff not current enrolled may elect to join. The impact of personal circumstances on the decisions of individuals to enrol or opt out of the pension scheme will have a material bearing on final costs. If all SJC staff not presently enrolled choose the join the pension scheme an additional cost to the council of £1.1m per annum has been provisionally quantified. A decision to defer auto enrolment for all staff and implement provisions relating to transitional arrangements for auto enrolment will defray this risk. It is understood this is the approach now being adopted by the majority of Scottish Local Authorities and a report recommending a course of action will be brought to members in due course. Welfare Reform and Auto Enrolment are both areas where a robust policy with respect to reserves will assist the council in managing residual risk.

3.11 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 focus on cost control, an innovative approach to business transformation, robust change management processes and a sustained drive to improve efficiency. The need to develop a longer term financial plan early in the new administration was signalled in the financial strategy approved by Council on the 9 February 2012. In response a five year financial outlook model has now been developed by the Council Management Team. The background to this model, its main features, and the challenges to be addressed, were documented in a report to Council on the 13th December 2012. At that meeting members agreed to adopt the model as the basis for the Council's 5 year revenue plan 2013/14 - 2017/18 and approved an initial set of revenue savings for 2013/14 for budget consultation. These initial savings, along with a range of other business transformation proposals covering the next 5 financial years, and proposals for growth in the budget to meet a range of pay, inflation, demographic and other service pressures are now included in the Administration's five year revenue plan. This is included for approval elsewhere on the Council agenda.

3.12 Staffing

At a cost of around £150m per annum pay and associated on-costs represent the largest single element of council expenditure. Public sector pay policy continues to be subject to ongoing restraint and the financial plan assumes modest cost of living increases of 1% in 2013/14, 1% in 2014/15 rising to 2% for the remaining 3 years of the financial plan. The ability to adapt terms and conditions to reflect modern working practices and down size the Council's work force in response to continuing financial pressures is a key tool in mitigating future cost pressures. In order to assist with this strategy, the financial plan provides £4.6m over the 5 year period for early retrial/voluntary severance.

3.13 Social Work pressures

The 5 year financial plan makes significant provision from year one with a recurrent additional resources of £1.384m allocated to fund the deficit evident in the Social Work budget in the current year. Members will recall this issue was reported to the Council Executive in the month 6 monitoring report along with an action plan to bridge the projected financial deficit. The provision in the financial plan represents the residual unfunded gap.

3.14 Local Government Pension Fund

The 2011 triennial revaluation of the pension fund by the Council's actuary Barnett Waddingham maintained employer's superannuation contributions at 18% for the 3 year period to 31 March 2014. Overall however the funding level dropped marginally to 95.7%. The long term view is that the fund remains in a healthy state with the deficit recovery period to return to 100% funding remaining at 12 years. It should be noted that the Council's employer contributions are relatively low compared to the majority of Scottish Local Authority Pension funds and the financial plan recognises that there may be a requirement for these contributions to increase in future.

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 and reserve levels.

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

Name	Designation and Contact Number
David Robertson	01835 825012

Background Papers:
Previous Minute Reference: Council Report 9 February 2012 and 13 December 2012

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.

Contact us at: Debbie Collins, Financial Services Manager, Scottish Borders Council, Council Headquarters, Newtown St Boswells, and Melrose, TD6 0SA.
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Risk Register: Financial Strategy 2013/14 -2017/18

APPENDIX 1

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	Economy and Funding	Welfare Reform Act	£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. Subsidy reduction and impact of localised council tax included in the 2013/14 revenue budget. Other risks not quantified at this stage.	5	3	15	Restructure service provision. Existing debt collection processes. Welfare reform board now established . Business Impact analysis ongoing	Y	Estimate 600,000 (based on 10% loss of £6m C Tax Income	5	3	15
2	Economy and Funding	Global economic downturn - negative growth	Less funding from Government to Council, greater demand for services, less money in local economy. Current impact on planning fees and Licensing	4	3	12	Medium term Revenue Financial Plan developed covering a 5 year period with early identification of future work programmes beyond 2013/14	Partial	1,200,000 (based on 1% of net revenue budget)	4	3	12
3	Economy and Funding	Reduction in Government funding to Local Authorities in real terms	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	Economy and Funding	Inability to increase local funding because of Council Tax freeze	Adverse effect on ability to raise income and therefore provide services	5	3	15	Business and medium term Revenue Financial Plans	Partial	part of figure above	2	3	6
5	Economy and Funding	Continually depressed housing market	Assumption re Developer Contributions prove too optimistic. Funding shortfall for railway, PPP schools etc. Risk of Challenge to existing policy with knock on impact on funding available for essential	4	3	12	Budget adjustment to take account of potential shortfall, diverting resources from other priorities in revenue and capital plans	Y	TBA	4	2	8

Risk Register: Financial Strategy 2013/14 -2017/18

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								Y / N / Partial	£			
6	Environment	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 to provide contingency for Roads in 2013/14. Community Resilience Scheme	Y	1,000,000 (general estimate)	4	3	12
7	Environment	Weather - severe floods	Additional revenue and capital costs	3	4	12	Bellwin Scheme, applies at £550,000 threshold and within certain criteria. Capital provision for Selkirk and Gala with proposal for major Scottish Govt funding 80%.	Y	550,000	3	3	9
8	Budget Control	Inability to achieve projected savings from Business Transformation e.g. restructure	Increased risks due to budget not being met, may result in future reduced service provision as a consequence	4	3	12	Tracking through monitoring process. Need to develop Benefits Realisation model	Partial	1,000,000 (general estimate)	3	3	9
9	Budget Control	Future demographics - Social Work. Ageing population, more children with complex needs	Additional revenue and capital costs. 10 year CIP based upon current levels of housing development and the knock on effect on population.	5	3	15	Business and medium term Revenue Financial Plans aligned to demographic pressures. Capital Plan.	Y	Projected Estimates Currently covered in financial plan	5	2	10
10	Budget Control	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.	Y	Projected Estimates Currently covered in financial plan	5	2	10

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								Y / N / Partial	£			
11	IT	Loss of corporate financial systems providers	Unsupported system's), no opportunity for development. Failure to financial and accounting controls	3	2	6	Ability to continue unsupported, in the short term. GL health check completed and an Officer Systems board established to prioritise recommendations for system development	Y	0	3	2	6
12	Supplier failure	Major contractors / providers of completed schemes going out of business during construction phase (e.g. Waste PPP scheme)	Council has step in rights however significant financial impact	2	2	4	Alternative provider sought, provide service in-house	Y	500,000	2	2	4
13	Supplier failure	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	Local Government Pension Scheme - 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. Proposed change to LGPS to contain costs based on CARE scheme. Next valuation due 31 March 2014. Financial plan assumes 0.25% increase in employers contributions in years 3 and 5.	Y	0 (based on BW report Dec 11)	3	3	9
15	Pension Fund	Pension Fund Including Admitted Bodies. Change in level of participation in the pension fund leading to a risk re past service cost.	Call on Council indemnity for past service costs	3	2	6	Ongoing monitoring and engagement with admitted bodies and appointed actuary	Y	700,000	3	2	6

Risk Register: Financial Strategy 2013/14 -2017/18 APPENDIX 1

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16	Economy and Funding	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	Economy and Funding	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. Annual revisions made to the strategy to reflect changes in economic situation. Compliance with credit worthiness policy monitored on an ongoing basis and robust scrutiny at point of investment. Low levels of current deposits.	Y	0	3	2	6
18	Economy and Funding	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. More robust policy framework now in place.	Y	250,000 (based on AR risk)	3	2	6
19	Economy and Funding	Default on RSL loan facility	Risk of failure of loan repayment	2	3	6	Security over loans, due diligence on RSLs, regular liaison and margin applied to interest rate to create risk provision	Y	130,000	2	2	4
20	Economy and Funding	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

Risk Register: Financial Strategy 2013/14 -2017/18

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				Likelihood	Impact	Risk Score				Likelihood	Impact	Risk Score
								Y / N / Partial	£			
21	Budget Control	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 for revenue and capital. Risk analysis re delivery of savings approved in financial plan. Monthly reporting to CMT and quarterly reporting to Executive.	Y	1,500,000 (0.5% overspend risk on £260m)	3	2	6
22	Economy and Funding	Contractual legal claims/ penalties levied against council claim	Litigation from contractor following failure of Council to enact obligations under a strategic contract e.g. PPP works compensation event	4	3	12	Monitoring processes, both internal and reporting to Members	Y	200,000 general est. based on ltd historic claims	3	2	6
23	Pension Fund	Auto Enrol enrolment in pension Fund	Increase in the cost of employees superannuation for previously opted out employees. Risk level reflects 50% based on current staffing opt out level.	5	3	15	Transitional arrangement to be consulted upon and brought forward to committee.	Partial	550,000	5	2	10
24	Economy and Funding	Municipal Mutual Insurance	Council is a scheme creditor of failed insurance firm. Solvent run off of the company no longer anticipated	4	3	12	Contained monitoring of the situation - no risk mitigation possible. Provision required.	N	388,000	4	3	12
									9,668,000			

		£	£
Projected General Fund balance as at 31 March 2013 prior to Police and Fire adjustment			7,229,000
less	approved commitments prior to 7/2/13		
	Municipal Mutual Insurance - creditor	-400000	
	Drawdown approved for winter maintenance	-565000	
			-965,000
less	draw down of funding for early retiral per revenue plan	-200000	
	capital match funding	-450000	
			-650,000
Remaining unallocated balance			**5,614,000**

Risk Register: Financial Strategy 2013/14 -2017/18

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				Likelihood	Impact	Risk Score				Likelihood	Impact	Risk Score
								Y / N / Partial	£			
		% Risks per risk register cover red by unallocated balances							58%			

ITEM 5

GENERAL FUND REVENUE RESOURCES AND COUNCIL TAX 2013/14

Report By CHIEF FINANCIAL OFFICER

SCOTTISH BORDERS COUNCIL

7 FEBRUARY 2013

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to advise Council of the estimated General Fund revenue resources available for financial years 2013/14 – 2017/18.

1.2 The report also outlines the process supporting the construction of the draft 5 year revenue budget 2013/14 – 2017/18.

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 2013/14.

1.5 The Corporate Management Team have worked together to support Members to set a Corporate five year revenue budget to meet the quantified pressures identified of £27.122m facing the Council over the next five years. These pressures have arisen due to the continuing constraints on External Funding from central government, the continuing freeze on council tax, the increasing pressures from demographics, inflation and employment costs. In response the Administration has adopted a new approach to formulate a sustainable five year budget based on a programme of efficiency savings and longer term transformation change. This approach is designed to ensure the effective deployment of the funds available in line with the Council's corporate objectives and approved service plans.

2 RECOMMENDATIONS

2.1 It is recommended that the Council:-

(a) notes the estimated revenue resources for 2013/14 to 2017/18;

(b) proceeds to consider the Administration's revenue budget proposals as set out at item 6 on the agenda;

(c) **approves a Band D council tax of £1,084 for financial year 2013/14, freezing the council tax at 2007/08 levels for sixth successive year;**

(d) **determines the council taxes to be paid for 2013/14 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 27 November 2012. The settlement confirmed resources from the Scottish government of £197.721m. Assuming that Council Tax is frozen again at 2007/08 levels, the total revenue resources available to the Council for 2013/14 are shown in table 1 below at £248.647m excluding specific grants.

Table 1 Assessment of Available Resources 2013/14 – 2017/18

AEF (Excluding Specific Grants)	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	2013/14	2014/15	2015/16	2016/17	2017/18
Revenue Support Grant	186,233	182,951	182,957	183,469	183,900
Police & Fire Grant Removal	(17,015)	(17,015)	(17,015)	(17,015)	(17,015)
Non Domestic Rates	28,503	31,183	31,183	31,183	31,183
	197,721	197,119	197,125	197,637	198,068
Reserves		200			
Council Tax	50,926	51,126	51,626	52,126	52,626
Total	**248,647**	**248,445**	**248,751**	**249,763**	**250,694**

4. THE AEF SETTLEMENT 2013/14

4.1 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 the conditions of the Scottish Government settlement. The estimated level of council tax collectable has been revised to £50.926m in financial year 2013/14 as shown in table 1 above. This estimate is based on the numbers of chargeable dwellings, applicable discounts, anticipated levels of bad debt and collection rates.

4.2 There are two 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 two remaining 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;

4.3 Overall resources from central government reflect an increase of £0.35m (0.18%) compared to 2012/13 comparable totals. The offer of funding contained in finance circular 05/2012 is provisional at this stage pending approval of the government's budget bill and the publication of the final 2013 circular.

5. AEF ESTIMATES 2014/15

5.1 Provisional figures for AEF beyond 2013/14 have also been provided in the settlement. These indicate a small decrease in total resources from Central government to Scottish Borders Council of £197.319m in 2014/15. This 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 15.8% of government funding excluding ring fenced grants, compared to 12.3% in the 2012/13.

6. THE FINANCIAL PLANNING PROCESS 2013/14 TO 2017/18

6.1 The Council has identified a need to enhance longer term financial planning in response to ongoing constraints in public sector expenditure. This year saw a greater role for the Corporate Management Team to produce a corporate budget. The process commenced with the development of a five year financial model which quantified the financial pressures facing the Council of £27.338m and compared these against the estimated revenue resources available. The Administration fully endorsed the strategy of a five year financial plan, particularly given the increasingly challenging financial outlook, and the lead-in times associated with the delivery of savings. The Council approved £3.458m of budget proposals for consultation on the 13 December 2012.

6.2 Since the Council approved the financial model on the 13 December 2012 the pressure facing the Council has fallen by £0.216m to £27.122m. This net reduction in overall pressures is due to adjustments to inflation, redeterminations from the Scottish Government and a slight increase in funding offset by some identified new pressures. The final quantified pressures are included in the Financial Outlook in appendix 2 to this report.

6.3 The financial strategy underpinning the budget, which is submitted for approval elsewhere on the Council agenda, also covers a five year timeframe. Members should note that a 5 year balanced revenue financial plan, prepared by the Administration and included elsewhere on the agenda, has identified further savings proposals for the next five years through both short term budget proposals and longer term business transformation projects. In approving the commencement of work to deliver these future years projects the Administration has signalled a clear direction of travel.

6.4 In compiling the five year plan, the following issues have been addressed:-

- The need for the Council to continue its business transformation programmes, to modernise its structures and the terms and conditions of staff 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 projects which will permanently change the way the council delivers services and provide sustainable cashable benefits;

- The need to provide for a range of demographic pressures particularly associated with services to the very old and vulnerable;

- The commitment to maintain teacher numbers at least for the first year;

- The increasing cost the council is facing for the goods and services it buys due to a range of inflationary pressures;

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

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

7. THE RESOURCE ALLOCATION PROCESS

7.1 The allocation of resources to be made available to Departments was quantified within the financial model. Before allocating available resources to Departments, as in previous years a number of non-Service specific items of expenditure were "top-sliced";

- Loan Charges.
- 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.
- The cost of Teachers in line with the Scottish Governments policy of protecting teacher numbers.
- Contributions to Change funds

7.2 In determining each Department's resource allocation for 2013/14 account was taken of:-

- relative shares of 2012/13 resources;
- inflation on goods and services purchased;
- demographic changes;
- government policy changes;

- the impact of the continuing depressed economy.

7.3 In determining provisional budgets for 2013/14, account has also been taken of:-

- the recommencement of staff pay awards and increments in 2013;
- the full-year effect of previously approved service developments, rationalisations and efficiency measures approved in 2012/13;
- the revenue consequences of the proposed capital programme over the five year period to 2017/18;
- Council Tax levels, the recommended level of Reserves, and the approach to Winter Maintenance.

8. COUNCIL TAX

8.1 The aim to have Council Tax levels frozen at 2007/08 is it is understood to continue for a sixth year. A decision by elected members to vary the council tax beyond the rates set in 2007/08 would 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.

8.2 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.

9. FINANCIAL IMPLICATIONS

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

10. RISK AND MITIGATION

a) The Council faces a number of risks in setting its financial plan for five years 2013/14 - 2017/18. The main identified risks are set out in the Financial Strategy.

b) There is an ongoing requirement for robust management action to deliver the savings and the development of a Corporate Programme of Business Transformation to ensure the delivery of the proposals set out in the five year financial plan 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.

c) 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.

11. 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.

12. 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.

13. CARBON MANAGEMENT

There are no effects on carbon emissions.

14. RURAL PROOFING

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

15. 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.

16. CONSULTATION

The Head of Legal and Democratic Services, Clerk to the Council and the Head of Audit & Risk have been consulted and any comments received have been incorporated.

Approved by

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Debbie Collins	Financial Services Manager Telephone 01835 825018

Background Papers:
Previous Minute Reference: Council Report 13 December 2012

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

Contact us at Debbie Collins, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA; Tel: 01835 825018.

Appendix 1

Council Tax levels 2013/14

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

Appendix 2 - General Fund Revenue Resources and Council Tax 2013/14

Scottish Borders Council 5 Year Financial Outlook	2013/14	2014/15	2015/16	2016/17	2017/18	Total	Assumptions
	£'000	£'000	£'000	£'000	£'000	£'000	
2012/13 Budget (approved 9 February 2012)	**264,195**	**252,377**	**258,920**	**265,418**	**271,474**	**1,312,385**	
Full year effects of 12/13 budget	**(3,283)**	**(262)**					
Pay award provision	1,415	1,610	3,070	3,095	3,112	12,302	1% pay award year 1 & 2, 2% for last 3 years.
Staff Increments	558	1,747	1,423	455	257	4,440	Increment recommencing from Nov 13. As staff turnover fall increment will not increase at the same levels as staff reach the top of their scale.
Adjustment to pay award and increment	0	0	(46)	(144)	(207)	(397)	To reflect the reduction in pay awards and increments based on reducing workforce identified in the savings proposals.
Living wage	129	0	0	0	0	129	Increase in the living wage to £7.50
Pensions employer contribution following revaluation	0	0	171	0	177	348	SBC pensions contributions are low compared to other local Scottish LA's and it is not likely that this can be maintained. Increase from 18% to 18.25% in years 2 and to 18.5% in year 5.
Employee Costs	**2,102**	**3,357**	**4,617**	**3,406**	**3,339**	**16,822**	
Inflation							
Statutory	36	37	39	40	40	191	Change to existing or new statutory legislation or central government directive.
Contractual	617	724	389	396	397	2,523	Pre-agreed contractual agreement for supply of asset, service or commodity, that increase or decrease annually in line with an inflationary indicator included in the contract.
Business Critical	724	831	662	716	733	3,666	Financial pressures arising as a result of increasing costs of key commodity items or services deemed business critical in terms of how the Council utilises them to maintain essential infrastructural working.
Inflation Total	**1,377**	**1,592**	**1,089**	**1,152**	**1,170**	**6,379**	
Department Pressures							
Demographic-driven pressures/reductions	920	889	904	1,518	1,629	5,860	Changes in demographics that may increase or decrease costs or income.
Government policy changes	676	752	211	(39)	62	1,662	New or changes to government policies that will increase or decrease costs or income.
- Change fund	(206)	239	(297)	0	0	(264)	
- CTAX localised benefit scheme	669	(669)	0	0	0	0	Part funded by Scottish Government
Economic Factors	50	0	(50)	0	0	0	Changes in economic factors that may have an impact in the Borders e.g. Borders Railway, housing market.
Removal of Police & Fire budget	(17,032)						
Other	1,745	115	35	35	160	2,090	Other non controllable external pressure.
Commercial rent increase income	(60)	(11)	(17)	(17)	(17)	(123)	
ER/VS	819	(29)	200	0	0	990	Provision for ER/VS & Redundancy costs.
Wide Area network	406	570	(194)	0	0	782	From Nov 13 the councils broadband costs have been added as the 5 year SG grant finishes.
Cost of Continuing movements	**(12,014)**	**1,856**	**792**	**1,497**	**1,834**	**(6,035)**	
Total increase	**(11,818)**	**6,543**	**6,498**	**6,055**	**6,343**	**13,621**	

Cost of Continuing	**252,377**	**258,920**	**265,418**	**271,474**	**277,816**	**1,326,006**	

Funded By							
Council Tax Income	50,926	51,126	51,426	51,726	52,026	257,230	Income increased by estimated new homes (excluding railway development). Council tax increase for 5 years.
Council Tax increases railway development	0	0	200	400	600	1,200	Increased income from the number of new homes in railway development areas.
Revenue Support Grant	186,233	182,951	182,957	183,469	183,900	919,510	Based on Settlement year 1 & 2 with small cash increases in year 3-5.
RSG reduction for Police & Fire	(17,015)	(17,015)	(17,015)	(17,015)	(17,015)	(85,075)	
Non Domestic Rates	28,503	31,183	31,183	31,183	31,183	153,235	Based on Settlement.
Reserves	0	200	0	0	0	200	One off Funding from reserves for ER/VS or redundancy payments.
Total Funding	**248,647**	**248,445**	**248,751**	**249,763**	**250,694**	**1,246,300**	
Residual Shortfall to be met by savings (cumulative)	**(3,730)**	**(10,475)**	**(16,667)**	**(21,711)**	**(27,122)**		
The Challenge per Year	**(3,730)**	**(6,745)**	**(6,192)**	**(5,043)**	**(5,412)**	**(27,122)**	

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

Ambitious for the Borders

Administration's Revenue Financial Plan 2013/14 – 2017/18

Scottish Borders COUNCIL

Scottish Borders Council

Revenue Financial Plan 2013/14 to 2017/18

Estimated Revenue Resources

	2013/14 £'000	2014/15 (Provisional) £'000	2015/16 (Provisional) £'000	2016/17 (Provisional) £'000	2017/18 (Provisional) £'000
Aggregate External Finance (1)					
General Revenue Support (2)	186,233	182,951	182,957	183,469	183,900
Reduction in RSG for Police & Fire	(17,015)	(17,015)	(17,015)	(17,015)	(17,015)
Non-domestic Rates (distribution from national pool)	28,503	31,183	31,183	31,183	31,183
	197,721	**197,119**	**197,125**	**197,637**	**198,068**
Reserves	0	200	0	0	0
Council Tax (Band D £1,084 - no increase)	50,926	51,126	51,626	52,126	52,626
Total	**248,647**	**248,445**	**248,751**	**249,763**	**250,694**

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

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Departmental Summary

Department	Budget 2013/14 £'000	Budget 2014/15 (Provisional) £'000	Budget 2015/16 (Provisional) £'000	Budget 2016/17 (Provisional) £'000	Budget 2017/18 (Provisional) £'000
Chief Executive & Resources	20,241	18,778	18,877	18,846	18,766
Education & Lifelong Learning	94,008	93,928	93,239	92,787	92,224
Social Work	77,051	78,356	78,864	79,960	81,923
Environment & Infrastructure	31,186	30,986	31,626	31,985	31,555
Loan Charges	21,295	21,295	21,295	21,295	21,295
CPPP & Other	4,866	5,102	4,850	4,890	4,931
Total	**248,647**	**248,445**	**248,751**	**249,763**	**250,694**

Scottish Borders Council

Revenue Financial Plan 2013/14 - 2017/18

Summary

	2013/14 £'000	2014/15 (Provisional) £'000	2015/16 (Provisional) £'000	2016/17 (Provisional) £'000	2017/18 (Provisional) £'000
Base Budget (approved February 2012)	**264,195**	**248,647**	**248,445**	**248,751**	**249,763**
Add/deduct					
Permanent Virements	74	0	0	0	0
Full year effect of previous year's Growths / Savings	(3,357)	(262)	0	0	0
Manpower adjustments	2,102	3,357	4,617	3,406	3,339
Non-pay Inflation including Service Specific	1,377	1,592	1,089	1,152	1,170
Department Specific Pressures	5,018	1,856	792	1,497	1,834
Removal of Police and Fire Budget	(17,032)	0	0	0	0
Deduct					
Business Transformation Projects	(497)	(5,383)	(4,582)	(3,492)	(3,461)
Efficiencies in Service Delivery	(2,841)	(825)	(1,530)	(1,481)	(1,743)
Service Rationalisations	(156)	(347)	(60)	(60)	(204)
Increased Income/New charges	(236)	(190)	(20)	(10)	(4)
Base Budget	**248,647**	**248,445**	**248,751**	**249,763**	**250,694**

Scottish Borders Council

Revenue Financial Plan 2013/14 - 2017/18

Chief Executive & Resources

	2013/14 £'000	2014/15 (Provisional) £'000	2015/16 (Provisional) £'000	2016/17 (Provisional) £'000	2017/18 (Provisional) £'000
Base Budget (approved 9 February 2012)	**20,684**	**20,241**	**18,778**	**18,877**	**18,846**
Add/deduct					
Permanent Virements	(137)	0	0	0	0
Full year effect of previous year's Growths / Savings	(336)	(12)	0	0	0
Manpower adjustments	309	524	742	529	521
Non-pay Inflation including Service Specific	122	148	130	131	132
Department Specific Pressures	216	42	(50)	0	0
Deduct					
Business Transformation Projects	0	(1,250)	0	0	0
Efficiencies in Service Delivery	(617)	(915)	(723)	(691)	(733)
Service Rationalisations	0	0	0	0	0
Increased Income/New charges	0	0	0	0	0
Base Budget	**20,241**	**18,778**	**18,877**	**18,846**	**18,766**

Scottish Borders Council

Revenue Financial Plan 2013/14 - 2017/18

Education & Lifelong Learning

	2013/14 £'000	2014/15 (Provisional) £'000	2015/16 (Provisional) £'000	2016/17 (Provisional) £'000	2017/18 (Provisional) £'000
Base Budget (approved 9 February 2012)	**94,182**	**94,008**	**93,928**	**93,239**	**92,787**
Add/deduct					
Permanent Virements	(386)	0	0	0	0
Full year effect of previous year's Growths / Savings	(589)	(40)	0	0	0
Manpower adjustments	984	1,277	1,777	1,417	1,323
Non-pay Inflation including Service Specific	432	589	443	456	469
Department Specific Pressures	160	(35)	35	182	616
Deduct					
Business Transformation Projects	(40)	(1,391)	(2,770)	(2,127)	(1,833)
Efficiencies in Service Delivery	(551)	(106)	(98)	(314)	(934)
Service Rationalisations	(156)	(347)	(60)	(60)	(204)
Increased Income/New charges	(28)	(27)	(16)	(6)	0
Base Budget	**94,008**	**93,928**	**93,239**	**92,787**	**92,224**

Scottish Borders Council

Revenue Financial Plan 2013/14 - 2017/18

Social Work

	2013/14 £'000	2014/15 (Provisional) £'000	2015/16 (Provisional) £'000	2016/17 (Provisional) £'000	2017/18 (Provisional) £'000
Base Budget (approved 9 February 2012)	**75,625**	**77,051**	**78,356**	**78,864**	**79,960**
Add/deduct					
Permanent Virements	141	0	0	0	0
Full year effect of previous year's Growths / Savings	(501)	(210)	0	0	0
Manpower adjustments	730	1,105	1,473	1,026	1,032
Non-pay Inflation including Service Specific	224	232	230	236	232
Department Specific Pressures	2,345	957	841	1,308	1,211
Deduct					
Business Transformation Projects	(357)	(215)	(1,326)	(994)	(432)
Efficiencies in Service Delivery	(994)	(410)	(706)	(476)	(76)
Service Rationalisations	0	0	0	0	0
Increased Income/New charges	(162)	(154)	(4)	(4)	(4)
Base Budget	**77,051**	**78,356**	**78,864**	**79,960**	**81,923**

Scottish Borders Council

Revenue Financial Plan 2013/14 - 2017/18

Environment & Infrastructure

	2013/14 £'000	2014/15 (Provisional) £'000	2015/16 (Provisional) £'000	2016/17 (Provisional) £'000	2017/18 (Provisional) £'000
Base Budget (approved 9 February 2012)	**31,338**	**31,186**	**30,986**	**31,626**	**31,985**
Add/deduct					
Permanent Virements	(144)	29	0	0	0
Full year effect of previous year's Growths / Savings	(450)	0	0	0	0
Manpower adjustments	79	451	625	434	463
Non-pay Inflation including Service Specific	526	558	230	272	279
Department Specific Pressures	662	692	274	24	24
Deduct					
Business Transformation Projects	(100)	(2,527)	(486)	(371)	(1,196)
Efficiencies in Service Delivery	(679)	606	(3)	0	0
Service Rationalisations	0	0	0	0	0
Increased Income/New charges	(46)	(9)	0	0	0
Base Budget	**31,186**	**30,986**	**31,626**	**31,985**	**31,555**

Scottish Borders Council

Revenue Financial Plan 2013/14 - 2017/18

Other

	2013/14 £'000	2014/15 (Provisional) £'000	2015/16 (Provisional) £'000	2016/17 (Provisional) £'000	2017/18 (Provisional) £'000
Base Budget (approved 9 February 2012)	**42,366**	**26,161**	**26,397**	**26,145**	**26,185**
Add/deduct					
Permanent Virements	600	(29)	0	0	0
Full year effect of previous year's Growths / Savings	(1,481)	0	0	0	0
Manpower adjustments	0	0	0	0	0
Non-pay Inflation including Service Specific	73	65	56	57	58
Department Specific Pressures	1,635	200	(308)	(17)	(17)
Removal of Police and Fire Budget	(17,032)	0	0	0	0
Deduct					
Business Transformation Projects	0	0	0	0	0
Efficiencies in Service Delivery	0	0	0	0	0
Service Rationalisations	0	0	0	0	0
Increased Income/New charges	0	0	0	0	0
Base Budget	**26,161**	**26,397**	**26,145**	**26,185**	**26,226**

Scottish Borders Council Revenue Financial Plan 2013/14 to 2017/18

	Department	2012/13 Base Budget £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total	Notes
Manpower									
Manpower Adjustments									
Pay award provision	Corporate		1,415	1,610	3,070	3,095	3,112	12,302	1% pay award year 1 & 2, 2% for last 3 years.
Staff Increments	Corporate		558	1,747	1,422	455	257	4,439	Increment recommencing from Nov 13. As staff turnover fall increment will not increase at the same levels as staff reach the top of their scale.
Adjustment to pay award and increment	Corporate		0	0	(46)	(144)	(207)	(397)	Reduction in pay awards and increments based on reducing workforce identified in the savings proposals.
Living wage	Corporate		129	0	0	0	0	129	Increase in the living wage to £7.50.
Pensions employer contribution following revaluation	Corporate		0	0	171	0	177	348	Increase from 18% to 18.25% in years 2 and to 18.5% in year 5.
Total Manpower Adjustments			**2,102**	**3,357**	**4,617**	**3,406**	**3,339**	**16,821**	
Inflation									
Statutory									
Examination Fees	E&LL	576	14	15	15	16	16	76	Based on current number of exams taken.
Free Personal Nursing Care	SW	632	13	13	14	14	14	68	Uprate based on estimated 2% increase.
Free Personal Care	SW	452	9	9	10	10	10	48	Uprate based on estimated 2% increase.
Total Statutory Inflation			**36**	**37**	**39**	**40**	**40**	**192**	
Contractual									
Bus Contracts (renewal)	E&I	2,462	300	300	0	0	0	600	Contracts to be retendered from 30/9/2013.
COSLA Res / Nurse Care Home Contract	SW	6,997	140	143	153	156	152	744	Uprate based on estimated 2% increase.
Unitary Charge	E&LL	7,918	139	242	208	212	218	1,019	Based on assumed RPI as per contract.
Borders Sport & Leisure Trust	E&LL	2,504	25	25	13	13	13	89	Based on assumed RPI less 2%.
Jedburgh Sport & Leisure Trust	E&LL	126	1	1	1	1	1	5	Based on assumed RPI less 2%.
Orchard & Shipman Homelessness PSL Contract Management Fee	SW	401	8	8	9	9	9	43	Uprate based on estimated 2% increase.
Borders Care & Repair Contract	SW	255	5	5	5	5	5	25	Uprate based on estimated 2% increase.
Total Contractual Inflation			**618**	**724**	**389**	**396**	**398**	**2,525**	

	Department	2012/13 Base Budget £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total	Notes
Business Critical									
Employee Insurance	Corporate	252	6	6	7	7	7	33	Based on CPI & risk management framework.
Group Life Insurance	Corporate	209	0	4	5	5	4	18	Based on CPI & risk management framework.
Property Insurance	Corporate	287	6	6	6	6	6	30	Based on CPI & risk management framework.
Leased Property Insurance	Corporate	78	2	2	2	2	2	10	Based on CPI & risk management framework.
Vehicle Insurance	Corporate	261	4	4	4	4	4	20	Based on CPI & risk management framework.
Car Lease Insurance	Corporate	61	1	1	1	1	1	5	Based on CPI & risk management framework.
Other Insurance	Corporate	65	2	1	1	1	1	6	Based on CPI & risk management framework.
Electricity	Corporate	2,968	239	321	176	187	195	1,118	Based on procurement contract starting 1/4/2013.
Gas	Corporate	674	67	71	39	41	43	261	Based on current procurement contract.
Rent & Way leaves	Corporate	824	8	8	13	13	13	55	Best estimate from Estates office.
Water	Corporate	700	17	18	14	14	15	78	Based on current procurement contract.
Rates	Corporate	5,281	77	78	79	81	82	397	Assumed increase of 1.5% p.a.
Licenses	Corporate	1,858	37	38	41	41	40	197	Software license fees based on CPI.
Catering (food)	Resources	1,211	36	50	50	50	50	236	Based on estimates of food only inflation.
Road Fuel	E&I	0	40	44	48	50	50	232	Based on CPI.
Aggregates & Bitumen	E&I	424	8	9	9	9	9	44	Reflects Scotland Excel contract.
Vehicles & Spare Parts	E&I	1,267	0	0	0	32	32	64	Reflects Scotland Excel contract.
Winter Maintenance	E&I	2,660	100	105	110	115	120	550	Reflects fuel increases.
Property Maintenance	Corporate	2,089	73	65	56	57	58	309	Reflects procurement framework agreements.
Total Business Critical Inflation			**723**	**831**	**661**	**716**	**732**	**3,663**	
Total Inflation			**1,377**	**1,592**	**1,089**	**1,152**	**1,170**	**6,380**	

	Department	2012/13 Base Budget £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total	Notes
Department pressures									
Demographic-driven pressures/reductions									
Number of old people requiring care	SW	22,555	643	411	625	1,048	865	3,592	TOPS demographic and cost projections.
Impact of Young People with LD / PD needs entering adulthood	SW	16,231	250	250	250	250	250	1,250	Costed directly from children in transition to adulthood.
No / Lifespan children - severe / complex needs	SW	532	27	28	29	31	32	147	5% increase on existing budget to reflect projected trend.
Movement in ICS school-based staff	SW	8,771	0	0	0	42	26	68	Linked to mainstream education demographic projections.
ICS transport	SW	1,114	0	200	0	0	0	200	Previously included saving now known not to be deliverable.
Pupil Demographics (Teacher Numbers)	E&LL	40,622	0	0	0	147	456	603	Demographic increase in 16/17 and 17/18 projected due to impact of new housing.
Total Demographic-driven pressures/reductions			**920**	**889**	**904**	**1,518**	**1,629**	**5,860**	

	Department	2012/13 Base Budget £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total	Notes
Government policy changes									
Localised Council Tax Benefit funding	Corporate	0	669	(669)	0	0	0	0	Part funded by Scottish Government.
Landfill Tax (Tonnage x £8 ton increase)	E&I	2,650	312	312	156	156	156	1,092	As advised by HM Customs.
Food Waste Collection	E&I	0	250	500	250	0	0	1,000	Best estimate of cost of introduction.
DWP subsidy for CTAX & Housing Benefit administration	Corporate	976	96	42	0	0	0	138	Best estimate of cost of introduction.
Self-Directed Support Net Transitional Costs	SW	0	0	0	(100)	(100)	0	(200)	Net of departmental contribution.
Council pledge to retain / recruit foster carers	SW	1,796	18	18	37	37	38	148	1% per annum increase.
Landfill tax saving from food waste collections	E&I	0	0	(120)	(132)	(132)	(132)	(516)	Best estimate of cost of introduction.
Other Change Fund	Corporate	106	(106)	0	0	0	0	(106)	
Early years Change Fund	Corporate	399	(100)	0	(297)	0	0	(397)	
Older people Change Fund	Corporate	479	0	239	0	0	0	239	
Total Government policy changes			**1,139**	**322**	**(86)**	**(39)**	**62**	**1,398**	
Economic Factors									
Licensing income pressure	Resources	(434)	50	0	(50)	0	0	0	Growth required to fund downturn in 2011/12.
Total Economic Factors			**50**	**0**	**(50)**	**0**	**0**	**0**	
Other Pressures									
Social Work 2012/13 Recurring pressures	SW	45,599	1,384	0	0	0	0	1,384	Identified Social Care & Health ongoing pressure.
Additional Commitment on Looked after Children	SW	24,076	23	0	0	0	0	23	RSG redetermination.
Additional Commitment on Family Support	SW	24,076	0	50	0	0	0	50	RSG redetermination.
Business transformation costs	Corporate	0	70	0	0	0	0	70	Funding of Head of Transformation service.
New West Linton Primary School	E&LL	746	40	0	0	0	0	40	Additional revenue costs of new school.
Peebles High School Sports Facility	E&LL	5,144	0	85	0	0	0	85	Additional revenue costs of new sports facility.
Duns Primary School move	E&LL	1,047	0	0	35	35	0	70	Additional revenue costs of new building.
New Kelso High School	E&LL	3,097	0	0	0	0	160	160	Additional revenue costs of new school.
Shortfall in Burial Income	E&I	0	100	0	0	0	0	100	Pressure resulting from crematorium opening.
ER/VS - Redundancy costs	Corporate	0	819	(29)	200	0	0	990	Additional cost of ERVS.
Wide Area Network	Resources	0	406	570	(194)	0	0	782	Estimate of cost of WAN in Borders.
Commercial Rent income	Corporate	(1,048)	(61)	(11)	(17)	(17)	(17)	(123)	Initial increase following Admin. Review.
Additional Quality of Life funding	Corporate	0	0	100	0	0	0	100	Quality of Life funding to be delivered via the 5 Area Forums.
CHAS funding	Corporate	6	8	0	0	0	0	8	As agreed by COSLA.
Rephasing of Culture Trust saving	E&LL	0	120	(120)	0	0	0	0	Transfer of saving from 2013/14 to 2014/15.
Total Other Pressures			**2,909**	**645**	**24**	**18**	**143**	**3,739**	
Total Pressures			**5,018**	**1,856**	**792**	**1,497**	**1,834**	**10,997**	
Total Manpower, Inflation & Pressures			**8,497**	**6,805**	**6,498**	**6,055**	**6,343**	**34,198**	

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Decisions commencing in 2013/14
Business Transformation Decisions

Centralisation of Social Emotional & Behavioural Need Service (SEBN)	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Integrated Children's Services	1,168	(200)	0	0	0	(200)	(400)
Ref. SWK/06							

Following the publication of the final recommendations from Transforming Children's Services, a working group was established to consider what changes will be required in our current services to children and young people with significant social, emotional and behavioural needs to enable us to meet their needs more effectively. Led by the Head of Integrated Children's Service, a further full review of the SEBN is currently being undertaken.

A key objective of the review will be the creation of a centralised facility that is accessible to more young people and families, ensuring that those who cannot be supported in mainstream facilities have the same access to positive experiences and outcomes.

The review will involve redeployment of both staff and other resources to enable such a centralised facility to operate efficiently and create better links with schools. By ceasing the existing model for service provision, the service will not only be more accessible to more young people and families but also redirect current expenditure in a more sustainable manner and seek to reduce long-term costs to the Council.

Review of all Social Work Business Support Services delivery model	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
SW Wide	4,000	(80)	(120)	(200)	0	0	(400)
Ref. SWK/01							

Over the last 3 years, there have been a number of reviews across the various support services that support the business of Social Work. During this time however, the demand for services has increased against a backdrop of year on year budget reductions. A further, single, all-inclusive review is planned that aims to identify improved structures and delivery models for business support services within the Social Work Department realigning resources to identified and defined need but taking into account affordability and the delivery of a planned efficiency target.

To achieve maximum impact, this project needs to consider all support services and back office functions across Social Work but excludes qualified social work staff. Savings will be achieved through more efficient use of overall staffing through an improved delivery model which will result in a reduction in the overall staff requirement of between 4.0 to 7.0 FTE. This will be achieved through clearer roles and responsibilities being developed.

Review of Night Time Support	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
SC&H	1,180	(59)	(59)	0	0	0	(118)
Ref. SWK/05							

Social Care & Health spends considerable resources (£1.18m p.a.) each financial year on waking and sleep-in support to people in registered accommodation, group living situations and their own homes. It is proposed to review the need for night-time support and its current delivery model, identifying alternative more cost-effective delivery models.

Whilst a key objective is to continue to provide robust night-time support to those with eligible needs, focus will also be placed on seeking provision of services which are efficient and effective in cost and quality, generating savings in the process by implementing new ways of working and exploring the use of innovative technology.

The review will work to deliver an efficiency target that has been set through:

- reviewing all people in receipt of night-time support to determine their level of future need
- innovative care planning to provide the level of support deemed apposite from the assessment
- reviewing the arrangements for travel required to provide night-time support
- reviewing management arrangements supporting the service
- exploring technological solutions
- drive down the unit cost of night-time support services

Review the SB Warden Service	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Neighbourhood Services	264	(50)	(200)	0	0	0	(250)
Ref. E & I / P09							

The SB Warden Service is a non statutory service which provides the Borders communities with a visible uniformed presence to address local anti-social behaviour.

The remit of the SB Warden service is to liaise with LB Police regarding localised issues of anti-social behaviour and to respond to other community concerns. The proposal is to reduce the service with an aim to ceasing the service by 2014/15.

Currently the service costs £264K p.a. with an establishment of 12.0 FTE (currently 4 FTE vacant posts) through the review of the service we will work closely with key stakeholders such as SBC Communities Safety Team, Lothian and Borders Police and others who would play a key part in the engagement process. All affected staff will be offered re-deployment into other appropriate council services. Where possible the department will seek to undertake key SB Warden activities as part of the new Neighbourhood Services function or ensure other partners such as the Police are able to deliver the work required.

Review of Fees and Charges	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cross Cutting	(1,200)	(50)	(50)	(50)	(50)	(50)	(250)
Ref. E & I / P07							

Following support from the Council Executive for a new fees and charges policy a review of all discretionary charges will be undertaken.

The objective will be to maximise external fees for all services working towards a full cost recovery model where appropriate and then to ensuring that such charges are reviewed annually. In addition our debt recovery policy ensures transparent accounting and administration to recover a high proportion of income on time to maximise income for the Council. Budget holders / Members / Communities and all relevant stakeholders should be consulted as part of the review process and when charges are reviewed annually.
This programme of work will commence in January 2013 and will be completed by 31 March 2013.

Review Early Years delivery model	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Early Years	4,845	(40)	(269)	(186)	0	0	(495)
Ref. ELL/01							

Funding to support this review of £297k has been made available to improve services delivered by Early Years services as part of the implementation of the '600 hours' pre-school care and education package as part of the Children's Bill. The review will:

• Explore alternative ways that pre-school care and education can be provided focussing on local services.

• Explore how a more integrated approach to childcare and education can better meet the needs of families, incorporating the requirement to provide 600 funded hours.

• To take a zero-based planning approach to pre-school services in Borders building a system that enables the 10 elements of the Early Years Framework to be delivered effectively and efficiently.

Review of all Social Care & Health Specialist Support Services	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
SC&H	727	(18)	(36)	(18)	0	0	(72)
Ref. SWK/02							

Over the past 4 years there have been a range of new teams established to improve access to Social Work services for the public. These teams have included professional social work staff, specialist support staff, and out of hours services. It is proposed to initiate a project to review the provision and delivery model of these specialist support services, including the Duty Hub, the Reviewing Team, Bordercare, Telehealthcare and the Emergency Duty Team, covering potential and future interfaces between each team.

This can be achieved through better use of staffing and clearer roles and responsibilities which will result in a reduction in the overall staff requirement of between 2.0 to 4.0 FTE depending on the new proposed delivery model. Improved access for the public and increased efficiency through reviewing and signposting at first point of contact will be delivered from the review by establishing the effectiveness of current arrangements, exploring opportunities to improve connections/communications, reduce duplication and increase flexibility.

	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Total Business Transformation commencing in 2013-14	**(497)**	**(734)**	**(454)**	**(50)**	**(250)**	**(1,985)**

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Decisions commencing in 2013-14
Efficiencies in Service Delivery

Waste Disposal Savings			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Waste	**Ref.**	**E&I/E08**	8,695		(608)		608	0	0	0	0
Description of Proposal	Waste disposal has temporary savings available for 1 year which can be used to contribute towards the E&I 2013/14 revenue gap. This funding is temporarily available as it has now been agreed that the new waste facility will not now come on stream until 2015. Available waste funding in the interim period arises from reduced tonnages going to landfill, higher levels of re-cycling and better rates for processing dry recyclate.										

Ongoing Review of Care Packages to include a rehabilitative / reablement approach			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
SCH-wide	**Ref.**	**SWK/16**	40,000		(500)		0	(50)	(50)	0	(600)
Description of Proposal	Continue the work started during 2012/13 to review care packages for Adults With Learning Disabilities, People With Mental Health Needs and General care which has adopted a rehabilitative and reablement approach which will support these client to become more independent.										

One-off increase to Primary and Secondary Staff Turnover Adjustment (STA)			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Schools	**Ref.**	**ELL/14**	(536)		(125)		125	0	0	0	0
Description of Proposal	Increase Primary and Secondary STA for one year which will be achieved from the reduction in the number of conserved and preserved posts and a reducing age profile for teachers.										

Ongoing reduction in Training Budget			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Performance Improvement	**Ref.**	**SWK/25**	250		(100)		0	0	0	0	(100)
Description of Proposal	An assessment of the departmental-wide training budget following prior year reductions to ensure key training requirement is maintained in order to progress delayed and outstanding training requirements.										

Staffing restructure			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Business Solutions	**Ref.**	**RES/07**	6,259		(83)		(233)	(153)	(122)	(113)	(704)
Description of Proposal	It is proposed to delete two posts subject to acceptance of ERVS applications being presented to Council in January 2013. Further staffing restructures are forecast to deliver savings in years 2014 to 2017.										

Reduction in Management Time costs in line with agreed DSM Scheme			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Primary Schools	**Ref.**	**ELL/34**	2,977		(80)		0	0	0	0	(80)
Description of Proposal	Efficiency savings from more stringent application of agreed DSM formula resulting in a lower requirement for management (i.e. non-teaching) time in Primary Schools.										

Efficiency savings from Ettrick Primary School			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Primary Schools	**Ref.**	**ELL/32**	107		(77)		0	0	0	0	(77)
Description of Proposal	Efficiency savings from Ettrick Primary School as the school is currently not operating due to lack of pupils.										

Staffing restructure			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Directorate Support	**Ref.**	**RES/01**	409		(75)		(14)	(9)	(7)	(7)	(112)
Description of Proposal	Review of Resources senior management structure and deletion of part-time clerical post will achieve savings in 2013/14. Continual review of staffing structures will bring savings from 2014 to 2017.										

Efficiency savings from Scottish Joint Council (SJC) staffing		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Primary Schools	Ref. ELL/33	4,431		(64)		0	0	0	0	(64)
Description of Proposal	Efficiency savings from SJC staff through the continuation of the programme of work to reduce historical SJC allocations to some Primary Schools.									

Reduce the costs of all commissioned spend by a further 2% over a 2-year period		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
SCH-wide	Ref. SWK/14	16,700		(60)		(125)	(60)	0	0	(245)
Description of Proposal	Continue to reduce the cost of commissioned services by a further 2% targeted over the next two years from October 2013 to September 2015.									

Reduce staff travel and mileage costs		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Social Work-wide	Ref. SWK/15	600		(60)		0	0	0	0	(60)
Description of Proposal	Drive a 10% reduction in staff mileage in their own cars by promoting a culture of efficiency, travel only where essential and review the use of fleet car clusters for higher mileage journeys.									

Targeted saving through more efficient use of premises for evening lets		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Schools	Ref. ELL/15	215		(55)		(33)	0	0	0	(88)
Description of Proposal	Targeted saving through more efficient use of premises for evening lets and attracting additional income from increased usage through marketing.									

Reduce Self-Directed Support (SDS) price point to 55%			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Self-Directed Support	**Ref.**	**SWK/18**	390		(50)		(100)	0	0	0	(150)
Description of Proposal	Introduce a SDS price point of 55% for all clients following the completion of the pilot scheme which was undertaken in the last year.										

Out of area placements to local provision			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Adults with Learning Disabilities	**Ref.**	**SWK/19**	300		(50)		(50)	0	0	0	(100)
Description of Proposal	Work is currently ongoing to relocate two clients currently placed out of area back to the Scottish Borders and their local communities.										

Revise strategy for key contract, moving from block commitment to spot purchase			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Adults with Learning Disabilities	**Ref.**	**SWK/20**	500		(50)		0	0	0	0	(50)
Description of Proposal	Move from a block commitment contract to spot purchase strategy producing savings from commissioning only as required.										

Review of Finance structure and third party payments.			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Finance (including income)	**Ref.**	**RES/02**	2,660		(49)		(137)	(91)	(72)	(67)	(416)
Description of Proposal	Efficiencies achieved from continual review of staffing structure and identified reduction in third party savings.										

Review of Private Sector Leasing strategy			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Homelessness	Ref.	SWK/26	27		(48)		(100)	(76)	(76)	(76)	(376)
Description of Proposal	Savings from bringing Private Sector Leasing service in-house when the contract ends 31 April 2013.										

Change in demographics from 2012/13			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Schools	Ref.	ELL/13	70,037		(46)		0	0	0	0	(46)
Description of Proposal	Savings from the changes in demographics of pupil numbers identified to continue after 2012/13.										

Building rationalisation			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Property & Facilities Management	Ref.	RES/08	3,367		(42)		(119)	(77)	(61)	(57)	(356)
Description of Proposal	Continual building rationalisation across the Borders to achieve property cost savings. Properties identified included 2 Church Street Eyemouth, 14 Chapel Street Selkirk, 14 Newtown Street Duns and Social Work office Earlston.										

Review of Curriculum Development budgets			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Central Schools	Ref.	ELL/17	249		(42)		0	(8)	(78)	0	(128)
Description of Proposal	Savings from unused Challenge Fund followed by the release of Curriculum for Excellence budget as it is implemented.										

Review delivery model for short-term intensive outreach service for children over 8.		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
ICS	**Ref. SWK/23**	270		(35)		(35)	(15)	(15)	0	(100)
Description of Proposal	To bring the service in house through investment in locality models to provide the same level of service.									

Remove budget over provision of deprivation allocations to Schools		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Central Schools	**Ref. ELL/19**	1,115		(35)		0	0	0	0	(35)
Description of Proposal	Remove the over provision of permanent budget established during the centralisation of various strands of deprivation budget for schools.									

Increased Customer Services income / staff restructuring		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Customer Services	**Ref. RES/03**	409		(31)		(87)	(57)	(46)	(42)	(263)
Description of Proposal	Additional income from increased charges for blue badges from £10 to £20 bringing the fees in line with the charge levied by most Councils. The national Registration Funding Working Group is considering fees levied by Registrars in Scotland and the current proposals to increase Registrar proposals will generate a minimum of £9k income p.a. is accepted. These fees have not been increased in 2011/12 or 2012/13. Further staffing restructures to deliver savings from 2014/15.									

Increase Fleet Management surplus		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Fleet Management	**Ref. E&I/E02**	(215)		(30)		(17)	(3)	0	0	(50)
Description of Proposal	Realign budget to reflect the additional surplus achieved by Fleet Management consistently over the last two years.									

Various small savings from the Waste Service		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Waste	Ref. E&I/E07	8,695		(29)		15	0	0	0	(14)
Description of Proposal	Savings from the Waste Service from ending of lease on fridge store building, one year savings on waste advertising, bulking of wood waste and reduction in contracted overtime. Additional income from the textiles bank facility provided by Nathans yields.									

Review Music Instruction		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Central Schools	Ref. ELL/20	420		(27)		(18)	0	0	0	(45)
Description of Proposal	Review the Instrumental Instruction Service to achieve a 10% budget efficiency and increase income charges by 5% whilst ensuring that children from the lowest income families remain entitled to free tuition.									

Efficiency Review on spend on preventative services e.g. Local Area Co-ordinators		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Adults with Learning Disabilities	Ref. SWK/17	247		(21)		0	0	0	0	(21)
Description of Proposal	Efficiency from the deletion of a vacant 1.0 FTE Community Link Worker from the staffing establishment.									

Identified savings from ongoing office rationalisations		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Social Work-wide	Ref. SWK/27	75,625		(20)		0	0	0	0	(20)
Description of Proposal	The ongoing office rationalisation programme has led to the identification of savings in 2012/13.									

HR Staff Restructuring			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Human Resources	Ref.	RES/05	1,391		(19)		(53)	(35)	(28)	(26)	(161)
Description of Proposal	Review of staffing structure in Human Relations and Workforce Planning to deliver savings.										

Increased license fee income followed by LDS staff restructuring			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Legal & Democratic Services	Ref.	RES/06	2,026		(14)		(39)	(26)	(21)	(19)	(119)
Description of Proposal	Increase all License fees including Taxi, HMO and Liquor licenses (not increased in 2011 or 2012) by 5% in 2013/14 to achieve additional income of £14k followed by an annual review. The range of fees will increase in 2013/14 from £59 - £472 to £62 - £496 per year (taxi fares will increase from £182 to £191). Savings from staff restructuring within legal and democratic services to achieve savings in 2014-17.										

Adopt self insurance model for delivery of life insurance for staff			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Audit & Risk Management	Ref.	RES/04	883		(14)		(39)	(26)	(21)	(19)	(119)
Description of Proposal	Adopt a self-insurance model for the provision of life insurance for all staff. Premiums paid have exceeded claims paid in 9 out of 10 years and claims due will always be known at year end minimising risks to the Council.										

Withdrawal of temporary waste disposal points			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Waste	Ref.	E&I/E07-3	8,695		(12)		0	0	0	0	(12)
Description of Proposal	Withdraw the provision of Saturday morning temporary disposal sites in Newcastleton, Jedburgh, Kelso & Lauder to support the implementation of the proposed new efficient waste strategy to meet Scottish Government targets on Zero Waste.										

Reduced spend on third party costs			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Chief Executive Office	**Ref.**	**CE/01**	657		(9)		(25)	(17)	(13)	(12)	(76)
Description of Proposal	Savings to be achieved from reduced spend on third party costs.										

Assessor Service Staffing saving			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Assessor & Electoral Registration	**Ref.**	**CE/02**	711		(9)		(25)	(17)	(13)	(12)	(76)
Description of Proposal	2013/14 deletion of 0.5fte vacant clerical post. Savings in years 2014/17 from further restructuring of the Assessor and Electoral Registration service.										

Saving from Rates appeals			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Corporate	**Ref.**	**COR/03**	5,281		(200)		0	0	0	0	(200)
Description of Proposal	SBC has been successful in appeals for Schools and Office Accommodation against the 2010 Revaluation Value achieving ongoing savings of around £200k on our annual Rates bill.										

New Start Terms & Conditions			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Corporate	**Ref.**	**COR/04**	150,000		(72)		(144)	(215)	(287)	(359)	(1,077)
Description of Proposal	Introduction of new terms and conditions for new employees excluding teachers. This will support the containing pay strategy across the Council.										

Total 2013/14 Efficiencies in Service Delivery	**(2,841)**	**(645)**	**(935)**	**(910)**	**(809)**	**(6,140)**

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Decisions commencing in 2013-14
Rationalisations

Targeted Devolved School Management (DSM) cash saving		Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Schools	Ref. ELL/25	1,748	(73)	(43)	0	0	0	(116)
Description of Proposal	Target savings from DSM Cash budgets in Primary & Secondary available to Head Teachers.							

Reduce Management Fee to Sports Trusts		Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Strategic Services	Ref. ELL/29	2,692	(60)	(60)	(60)	(60)	(54)	(294)
Description of Proposal	Reduce Borders Sport and Leisure Trust (BSLT) and Jedburgh Leisure Trust Management Fee and Berwickshire Recreation Education Sports Trust (BREST) grant for 5 years from 2013/14 to align their efficiency target with the Council's.							

Review CPD provision		Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Central Schools	Ref. ELL/26	162	(23)	(14)	0	0	0	(37)
Description of Proposal	Reduce Continuing Professional development budget for teachers by 25%.							

Total 2013/14 Rationalisations	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	(156)	**(117)**	**(60)**	**(60)**	**(54)**	**(447)**

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Decisions commencing in 2013-14
Increased Income/New Charges

Review of charging policy for specific fees and charges		Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
SC&H	Ref. SWK/34	45,599	(150)	(150)	0	0	0	(300)
Description of Proposal	Review Homecare (taper) rate to assess client contributions towards the cost of their homecare whilst still remaining below the national average.							

Charge for privilege lifts		Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Transport	Ref. ELL/30 / E&I/I01	5,536	(32)	(18)	0	0	0	(50)
Description of Proposal	Introduce a flat daily return fare of £1 for all catchment school pupils not in receipt of free travel and £2 return for all Privilege Lifts that are a result of the exercising of parental choice in the Scottish Borders from August 2013. Those on low income will be able to apply and be assessed for a free bus pass similar to applying for free school meals. Payment options for paying monthly/per term will also be considered.							

Increase in Regulated Bus Fares		Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Passenger Transport	Ref. E&I/I02	2,302	(30)	0	0	0	0	(30)
Description of Proposal	Implementation of the full fares increase approved by the Regulator for First Bus estimated at 3% based on relevant elements of annual inflation.							

Review pricing of Primary School Meals		Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
School Meals Income	Ref. ELL/31	(1,516)	(12)	(18)	(16)	(6)	0	(52)
Description of Proposal	Increase the price of primary school meals by 10p each year from August 2013 from the current charge of £1.80 per meal . August 2013 £1.90, August 2014 £2.00 and August 2015 £2.10.							

Inflationary increase on Bordercare charge		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
SCH-wide	**Ref. SWK/33**	190		(12)		(4)	(4)	(4)	(4)	(28)
Description of Proposal	Uprate Bordercare charges in-line with inflation. Charges will increase from £2.30 to £2.45 in 2013/14 to reflect no increases in the last two years, followed by 2% increases (5p) per annum in each year thereafter - £2.50, £2.55, £2.60, £2.65.									

Total 2013/14 Increased Income/New Charges total		**(236)**		**(190)**	**(20)**	**(10)**	**(4)**	**(460)**
Total 2013-14 Other Proposals		**(3,233)**		**(952)**	**(1,015)**	**(980)**	**(867)**	**(7,047)**

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Decisions commencing in 2014/15 onwards
Business Transformation Decisions

Review of Employee Terms & Conditions of Employment	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Corporate	150,000	0	(2,466)	0	0	0	(2,466)
Ref. COR/01							

The Council's biggest cost is staffing at over £150m p.a. The Council is one of the biggest employers in the Scottish Borders and does not see compulsory redundancy to reduce pay cost as an option. A number of proposals are therefore being considered to contain future pay costs to ensure that the Council can continue to provide affordable, sustainable services to the community and protect employment opportunities.

• A review of overtime payments and enhancements will be undertaken to significantly reduce costs by working more flexibly to respond to peaks and troughs in service demand.

• A full review of terms and conditions around working patterns will be supported by HR. There will be full consultation with trade unions / employee council / and other appropriate groups.

• A full impact assessment on service delivery will be undertaken.

Review Scottish Joint Council (SJC) staffing allocation model for schools	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Schools	70,037	0	(657)	(288)	(191)	0	(1,136)
Ref. ELL/04							

This project is linked to the current review of Devolved School Management (DSM) and the commitment to reduce the 'historic allocation' of SJC staff to some primary schools beyond the current DSM formula. This review project will:

• Explore alternative ways in which schools can be supported, both at establishment and learning community level by SJC staff with a view to driving substantial efficiencies into the current system.

• Explore the relationship between administrative support in schools and at Headquarters thus preventing duplication and ensuring that support is as near schools as possible.

• Audit and identify current levels of support to schools through DSM formula/historic allocation or other funding streams. Identify current range of SJC staff (e.g. Primary School Administrator, School Assistant, Classroom Assistant, Playground Supervisor) and explore the potential of moving towards a more generic support worker role.

• Explore the potential of moving some admin/budget support to a learning community level rather than individual school level.

Develop an integrated Waste Services Strategy	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Waste	8,695	0	(500)	(150)	(150)	0	(800)
Ref. E & I / P01							

An integrated waste management strategy will be developed to assess the current and future service provision. The main aim is to provide services that are sustainable both financially and environmentally and that are compliant with national policy, local policy and legislation.
▪The review will explore alternative ways to deliver waste management services to the Scottish Borders.

• The review will take a zero based planning approach to providing waste management.

• A final options paper for consideration will be taken to the E & I management team / CMT and to Council.

The review will in consult with key stakeholders which will include SEPA / Scottish Government / Zero Waste Scotland / Industrial and commercial waste producers / residents of the Scottish Borders.

Review provision of Secondary Education	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Secondary	39,184	0	(275)	(1,328)	(1,354)	(1,054)	(4,011)
Ref. ELL/03							

This review will seek to review the current delivery model of Secondary Education and make recommendations on alternative models of delivery. The review will develop a menu of options for budget reductions, ensuring the different requirements of individual schools are recognised, this will focus on:

• Buildings and use of buildings

• Curriculum

• Timings

• Pupil Support

• Staffing

• Partnerships

• Learning Community

• Shared Services

Review of Passenger Transport Services through Community Partners	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Passenger Transport	39,184	0	(270)	0	0	0	(270)
Ref.							

There is a need for greater integration and this sharing of transport services between Council Departments, the NHS (including the Scottish Ambulance Service) and community transport organisation as recommended by Audit Scotland in their 2011 report.

The review would work to identify a delivery model capable of delivering long-term sustainable community transport through a better coordinated and efficient local transport service, with more journey opportunities for clients, which delivers best value to the funding organisations and produces cost savings.

This type of model is already being examined for possible implementation in the Peebles area, and the work would be extended to include further possible hubs at Hawick, Kelso and Eastern Berwickshire.

Review of Parks & Open Spaces Provision	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Neighbourhood Services	2,245	0	(250)	(200)	0	0	(450)
Ref. E&I / P03							

Parks & Open Spaces are an integral part of Neighbourhood Services and it is considered that an alternative delivery model, more responsive to community needs and greater community involvement could deliver significant cost reductions. This review would deliver:

• A defined Park and Open Spaces policy applicable to all areas of the Borders

• A policy for service designed with the support of Elected Members and members of the community

• Greater partnership working with the community

• A service delivered with a reduced budget.

Review of the Library Service	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Libraries	1,837	0	(190)	0	0	0	(190)
Ref. ELL/06							

The Cultural Services review has two core elements:

1. A Modernisation Review of Library Services which will include all library services:

2 Branch Libraries, Mobile Libraries, School Libraries and Backroom, Support and Management functions.

Review of Street Lighting Provision	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Street Lighting	1,208	0	(41)	(86)	(95)	(104)	(326)
Ref. E & I / P04							

The Council maintains 19,000 street lights with 7,000 in excess of 20 years old. The street lighting energy and maintenance costs are in excess of £950k p.a. and an opportunity has arisen to invest through the Capital Programme in new technology to reduce this cost.

Review provision of Primary Education	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Primary	30,852	0	0	(818)	(582)	(329)	(1,729)
Ref. ELL/02							

A review of the current delivery model of primary education specifically considering reducing the pupil school day to generate savings through a reduction in non contact time cover required and reviewing current management structures within primary schools.

Review in-house Council Services	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Corporate	13,000	0	0	(617)	(637)	0	(1,254)
Ref. COR/05							

Costs of delivering in-house Council Services are under increasing pressure from increasing demographics and staff costs. The Council has a reputation for delivering good quality services and is now proposing to look at a range of alternative models for the future delivery of public services such as Arms-Length Organisations, Limited Liability Partnerships, etc. Similar models, already operating in other local authorities, include homecare and residential services and other care services such as community alarms, equipment stores, day care and meals at home. Services outwith the arena of health and social care may include environmental cleaning & valet services, homelessness, facilities management services such as janitorial services, school crossing patrols, catering & hospitality services and SBc Contracts. There would be many benefits to the Council. Whilst any new organisation would remain member-owned and Council controlled, greater commercial flexibility would be achieved leading to the ability to increase income to the Council and reduce costs, promoting both improved financial and non-financial performance.

Supported Living Accommodation	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Social Work	13,700	0	0	(250)	0	0	(250)
Ref. SWK/03							

The Learning Disability Service currently commissions support services for people with learning disability to enable community living. A review to ensure that we continue to maximise opportunities for people with complex needs to live in Scottish Borders in accommodation appropriate to their need to prevent long term out of area placements being proposed. This would be provided by a change in our housing strategy where the potential development of Core and Cluster accommodation encompassing the very specific housing needs for this group of people could be developed. This would form a key part of the housing strategy for the next 5 years with joint work between Social Care and Health and Housing Strategy.

Further integration of Integrated Children's Services (ICS)	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Social Work	24,000	0	0	(241)	(357)	(232)	(830)
Ref. SWK/07							

Following the success of the implementation of ICS further work has been identified to enable the service to continue to improve outcomes for Children and families in the Scottish Borders. This could be achieved by identifying both community capacity and further developing the capacity of front-line staff to work directly with children, young people and or families. This would ensure that the Council continues to meet all statutory requirements taking cognisance of local and national policy in our planning redesign.

Review of the school estate	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Schools	70,037	0	0	(150)	0	(450)	(600)
Ref. ELL/05							

The school estate currently costs the Council £7.5m to maintain each year for 72 establishments. It is proposed that a more efficient school estate is developed by reducing the property portfolio.

• A review of the school estate to take into consideration different delivery models to ensure future delivery of a service that meets the needs of a changing educational and community environment.

• Starting this review now will allow a formal strategy to be developed taking into account potential changes in guidance and legislation.

New Planning Fee Regime	Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Planning & Regulatory Services	(1,988)	0	0	0	(76)	(1,042)	(1,118)
Ref. E & I / P05							

Income from planning fees has been decreasing over the last few years as the economic downturn continues. The cost of processing many applications runs well in excess of the fees received and a proposal is being supported by COSLA to introduce a more sustainable planning fee structure from 2016/17.

Total Business Transformation commencing in 2014/15	**0**	**(4,649)**	**(4,128)**	**(3,442)**	**(3,211)**	**(15,430)**

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Decisions commencing in 2014/15 onwards
Efficiencies in Service Delivery

Extend peripatetic janitor model			**Base Budget 2012/13**		**2013/14**		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total**
			£000's		**£000's**		**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Central Schools	**Ref.**	**ELL/18**	736		0		(108)	(77)	0	0	(185)
Description of Proposal	To extend the current peripatetic janitor model to cover additional schools. All schools with a pupil capacity of 175 pupils or less in 2014/15 and a pupil capacity of 241 in 2015/16 will now be included. These additional schools will be included in the peripatetic model where a pool of Janitors support a group of schools in place of a full time Janitor in each school.										

Reduce Youth Work, Adult Learning and Community Capacity Building budgets			**Base Budget 2012/13**		**2013/14**		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total**
			£000's		**£000's**		**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
CL&D	**Ref.**	**ELL/22**	1,353		0		(30)	0	0	(52)	(82)
Description of Proposal	Further review leading to a reduction in Youth Work, Adult Learning and Community Capacity Building budgets.										

Review NGfL staffing			**Base Budget 2012/13**		**2013/14**		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total**
			£000's		**£000's**		**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Central Schools	**Ref.**	**ELL/16**	175		0		(22)	(13)	0	0	(35)
Description of Proposal	A reduction in staffing costs at the end of the current NGfL replacement is planned. Following completion of the current NGfL replacement, future refresh programmes will be approached on a rolling programme which will require less staffing resource.										

Review Heritage Hub (Heart of Hawick)			**Base Budget 2012/13**		**2013/14**		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total**
			£000's		**£000's**		**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Central Community Services	**Ref.**	**ELL/23**	232		0		(20)	0	0	0	(20)
Description of Proposal	Review Heritage Hub to deliver budget savings in line with current performance.										

Further roll out locality transformation agenda following the pilot in Cheviot to remaining 4 localities			Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
			£000's	£000's	£000's	£000's	£000's	£000's	£000's
SCH-wide	Ref.	SWK/29	1,773	0	0	(255)	(85)		(340)
Description of Proposal	Transformation of Older People's services plans to reduce the cost of staffing, property and transport in the delivery of services. Following the Cheviot pilot, it is now proposed to roll the review out across the remaining 4 localities.								

Review home-based care packages and evaluate their cost-effectiveness relative to the maximum cost of residential care home placement			Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
			£000's	£000's	£000's	£000's	£000's	£000's	£000's
SCH-wide	Ref.	SWK/28	40,000	0	0	(250)	(250)	0	(500)
Description of Proposal	There are a significant number of high-cost home-based care packages in excess of the cost of a residential care-home placement. It is proposed to review these packages and where appropriate, reduce provision based on need.								

Cessation of salary conservation			Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
			£000's	£000's	£000's	£000's	£000's	£000's	£000's
Schools	Ref.	ELL/12	296	0	0	0	(136)	(82)	(218)
Description of Proposal	Cessation of salary conservation (teaching staff) in line with the National Agreement in August 2016.								

Reduce the number of Halls and Community Centres			Base Budget 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
			£000's	£000's	£000's	£000's	£000's	£000's	£000's
Community Venues & Community Centres	Ref.	ELL/21	1,077	0	0	0	(100)	0	(100)
Description of Proposal	Reduce number of Halls and Community Centres - Property Estate Review.								

Refinance borrowing on the PPP project		Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
		£000's		£000's		£000's	£000's	£000's	£000's	£000's
Secondary	**Ref. ELL/11**	7,818		0		0	0	0	(800)	(800)
Description of Proposal	Refinance borrowing on the PPP project in order to generate financial savings. SBC will receive 50% of any financial benefit arising from refinancing with the remaining 50% of the saving being attributed to Scottish Borders Education Partnership (SBEP).									

Total 2014/15 onwards Efficiencies in Service Delivery		**0**		**(180)**	**(595)**	**(571)**	**(934)**	**(2,280)**

Scottish Borders Council
Revenue Financial Plan 2013/14 to 2017/18
Decisions commencing in 2014/15 onwards
Rationalisations

Review Cleaning arrangements in Schools			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Schools	Ref.	ELL/24	1,300		0		(130)	0	0	0	(130)
Description of Proposal	Restructuring of hours to deliver essential cleaning duties with a targeted efficiency saving.										

Reduce commissioned services from Children and Young People's Planning Partnership (CYPPP)			Base Budget 2012/13		2013/14		2014/15	2015/16	2016/17	2017/18	Total
			£000's		£000's		£000's	£000's	£000's	£000's	£000's
Strategic Services	Ref.	ELL/27	869		0		(100)	0	0	(150)	(250)
Description of Proposal	Reduce commissioned services from CYPPP.										

Total 2014/15 onwards Rationalisations	**0**	**(230)**	**0**	**0**	**(150)**	**(380)**
Total 2014-15 onwards Other Proposals	**0**	**(410)**	**(595)**	**(571)**	**(1,084)**	**(2,660)**

ITEM 7

TREASURY MANAGEMENT STRATEGY 2013/14

Report by Chief Financial Officer

SCOTTISH BORDERS COUNCIL

7 February 2013

1 PURPOSE AND SUMMARY

1.1 **This report proposes the Treasury Management Strategy for 2013/14 for Council approval.**

1.2 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.

1.3 **Appendix 1** contains the Treasury Management Strategy 2013/14, considered by the Audit Committee on 14 January, and this incorporates the Prudential and Treasury Indicators for the next three years which are summarised in paragraph 4.8.

1.4 The main development is the incorporation of an amended creditworthiness policy for counterparties with whom the Council invests surplus funds. This is set out in Section 5 of Appendix 1.

2 RECOMMENDATIONS

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

(a) Approves the Treasury Management Strategy for 2013/14 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 Annual Treasury Management Strategy for 2012/13 at the Council on 9 February 2012. 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. Audit Committee has considered, commented and recommended the attached Strategies for Council approval at their meeting on 14 January 2013. The Committee also has requested that the Strategy is kept under review in light of the ongoing uncertain economic climate.

3.4 In November 2012, the Council awarded a contract for Treasury Advisory Services to Sector Treasury Management.

3.5 During 2012, in line with the Scottish Government consent to borrow, the Council has invested £2.4m in the first phase of the National Housing Trust (NHT) initiative through the Tweedside NHT LLP. The second phase of housing development and investment will be in 2013. This expenditure will be categorised as capital expenditure for the purposes of the treasury management and prudential indicators.

4 TREASURY MANAGEMENT STRATEGY

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

4.2 The document follows the same format as previous years, however it includes an amendment to the creditworthiness criteria for counterparties and it is proposed to adopt the revised Investment Policy set out in Section 5 of the Strategy. The key change incorporates additional financial and market information in the assessment of the risk associated with a counterparty and groups them into coloured bandings with different investment maturity durations. The Council's Treasury Adviser, Sector, has devised this approach.

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 includes a list of Permitted Investments and limits for the Council, the Common Good and Trust Funds and the Pension Fund. Although for the Common Good and Trust Funds and the Pension Fund this only covers the element 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 on 23 June 2010, and the Common Good and Trust Funds are covered by the Investment Strategy approved by the Council on 15 December 2011.

4.5 The Strategy reflects the impact of Administration's Draft Capital Financial Plan 2013/14 – 2022/23 and incorporates the impact of Waste Treatment Facility Private Finance Initiative (PFI) project on the balance sheet and the Prudential Indicators.

4.6 The Strategy also reflects the additional borrowing proposals for the NHT and lending to Registered Social Landlords (RSLs) which are both subject to the Scottish Government providing Consent to Borrow for this expenditure. The Consent to borrow has been secured for the NHT proposal, however the lending to RSLs is still to be formally requested and granted.

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.	2013/14	2014/15	2015/16
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure Limits	5	£24.8m	£28.6m	£25.3m
PI-2	Capital Financing Requirement (CFR)	6	£276.3m	£274.6m	£285.2m
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	7	9.16%	9.13%	9.23%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	7	0.02	0.00	0.00
External Debt Indicators					
PI-5	Actual Debt	8	£267.8m	£274.2m	£290.2m
PI-7a	Operational Boundary (inc. Other Long Term Liabilities)	9	£279.7m	£286.2m	£300.6m
PI-7b	Operational Boundary (exc. Other Long Term Liabilities)	9	£221.5m	£229.7m	£229.5m
PI-8a	Authorised Limit (inc. Other Long Term Liabilities)	9	£321.6m	£323.1m	£330.1m
PI-8b	Authorised Limit (exc. Other Long Term Liabilities)	9	£263.4m	£266.6m	£259.0m
Indicators of Prudence					
PI-6	(Under)/Over Net Borrowing against the CFR	8	(£23.9m)	(£14.0m)	(£1.1)m
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt	12	£279.7m	£286.2m	£300.6m
TI-2	Upper Limit to Variable Interest Rates based on Net Debt	12	£97.9m	£100.2m	£105.2m
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	20	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 Treasury Management Strategy is an element of risk mitigation and has been scrutinised by the Audit Committee to ensure that they are satisfied with this element of the risk management framework for the treasury management function within the Council. This provides assurance to the Council that the parameters and guidance for making the appropriate investment and borrowing decisions are in place.

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

Several of the projects proposed will have a beneficial effect on future carbon emissions.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area, the proposals are designed to enhance public sector infrastructure in the Borders.

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 14 January 2013.

Approved by

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

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Background Papers:

Previous Minute Reference:
Audit Committee, 14 January 2013

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APPENDIX 1

SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT STRATEGY
(incorporating the Annual Investment Strategy)
2013/14

Finance
Resources Department
Version 1
Approved: xx

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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, estimated and actual figures.

a) **Prudential and treasury indicators and treasury stategy** (this report).
This report is the most important of the three reports and covers:

- The Capital Plans of the Council (including prudential indicators);
- The Treasury Management Strategy (how the investments and borrowings are organised) including treasury indicators; and
- An Investment Strategy (the parameters on how investments are to be managed).

b) **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary.

c) **An annual treasury report** - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 **Scrutiny**
These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

1.4 The Treasury Management issues covered by this report include:

Capital Issues
- the capital plans and the prudential indicators.

Treasury management issues
- 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 Scottish Government Investment Regulations.

1.6 **Treasury Management Consultants**

The Council uses Sector as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that and will ensure that it does not only rely upon information and advice from our external service providers is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. 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.

1.7 The Treasury Management Strategy covers the treasury management activities for the Council, the Scottish Borders Council Pension Fund, the Common Good and 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 received 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 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 2013/14 – 2015/16

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 this planning cycle. The Capital Financial Plan for 2013/14 – 2022/23 includes the following capital expenditure forecasts:

Capital Expenditure (PI-1) £m	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Engineering Infrastructure	13.6	12.5	10.3	10.5	6.2
Land & Property	11.6	12.5	11.8	11.4	13.1
Business Infrastructure	2.8	1.9	2.1	5.3	5.4
Fleet	2.7	2,9	-	0.8	-
Other	0.5	1.2	0.6	0.6	0.6
Total	**31.2**	**31.0**	**24.8**	**28.6**	**25.3**

3.2 Other Long Term Liabilities

The financing need identified above in paragraph 3.1 includes other long term liabilities, such as Public Private Partnerships (PPP) and leasing arrangements which already include borrowing instruments.

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 lending to the National Housing Trust (NHT) (approved by Council 10 February 2011) and the proposed borrowing to lend to Registered Social Landlords (RSLs) (approved by Council 15 December 2011). Consent was received for the NHT borrowing, though no application has yet been made for the RSLs and the estimated amounts are as follows:

Other Relevant Expenditure £m	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
National Housing Trust (NHT)	-	2.4	1.6	-	-
Regional Social Landlords (RSLs)	-	-	10.6	1.1	0.5
Total	**-**	**2.4**	**12.2**	**1.1**	**0.5**

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	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Expenditure	31.2	31.0	24.8	28.6	25.3
Other Relevant Expenditure	-	2.4	12.2	1.1	0.5
Total Expenditure	**31.2**	**33.4**	**37.0**	**29.7**	**25.8**
Financed by:					
Capital receipts	0.5	0.7	0.8	2.4	1.9
Developer Contributions	0.4	0.1	0.1	0.1	0.1
Govt. General Capital Grants	11.9	9.4	8.8	13.4	11.5
Govt. Specific Capital Grants	0.3	0.5	2.3	0.5	5.4
Other Grants & Contributions	1.3	1.4	2.4	5.0	1.2
Capital Grants (Waverley Railway)	6,2	2.4	-	-	-
CFCR	0.3	-	-	-	0.4
Plant & Vehicle Fund	2.6	2.6	-	-	-
Net financing need for the year	**7.7**	**16.3**	**22.6**	**8.3**	**5.3**

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. The CFR does not increase indefinitely, as scheduled debt amortisation (loans pool charges) broadly reduces the borrowing need in line with each assets life.

b) The CFR includes any other long term liabilities (e.g. PPP schemes, finance leases). 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 £59.9m of such schemes within the 2012/13 long term liabilities figure.

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

Capital Financing Requirement (PI-2) £m	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total CFR (PI-2)	**257.9**	**264.1**	**276.3**	**274.6**	**285.2**
Movement in CFR represented by:					
Net financing need for the year (above)		13.9	10.4	7.2	4.8
Less scheduled debt amortisation and other financing movements		7.7	(1.8)	8.9	(5.8)
Movement in CFR		**6.2**	**12.2**	**(1.7)**	**10.6**

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:

Ratio of financing costs to net revenue stream (Prudential Indicator PI-3)

b) 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.

%	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Ratio of Financing Costs to Net Revenue Stream (PI-3)	8.59	8.85	9.16	9.13	9.23

The estimates of financing costs include current commitments and the proposals in the Financial Plans for 2013/14.

Incremental impact of capital investment decisions on council tax (Prudential Indicator PI-4)

c) This indicator identifies the revenue costs associated the operational three year capital programme detailed 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.

£	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Incremental impact of capital investment decisions on the band D council tax (PI-4)	(0.02)	0.00	0.00

The key reason for the nil impact in 2013/14 and 2014/15 is the maintenance of the revenue consequences of the loan charges cap at £21.3m within the Financial Strategy proposed for the Council.

4 Treasury Management Strategy

The capital expenditure plans set out in Section 3 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 appropriate 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 2012, with forward projections, is summarised below. The table shows the actual external borrowing, against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
External Debt:					
Borrowing at 1 April		171.1	184.7	209.6	217.7
Expected change in borrowing		13.6	24.9	8.1	1.4
Borrowing at 31 March	**171.1**	**184.7**	**209.6**	**217.7**	**219.1**
Other long-term liabilities (OLTL) at 1 April		61.9	59.9	58.2	56.5
Expected change in OLTL		(2.0)	(1.7)	(1.7)	14.6
OLTL at 31 March	**61.9**	**59.9**	**58.2**	**56.5**	**71.1**
Total Actual External Debt at 31 March (Prudential Indicator PI-5)	**233.0**	**244.6**	**267.8**	**274.2**	**290.2**
Investments at 31 March	**9.5**	**7.5**	**6.5**	**6.0**	**9.0**
Net borrowing	**223.5**	**237.1**	**261.3**	**268.2**	**281.2**
CFR – the borrowing need (inc estimates of additional CFR for following 2 yrs – see 4.1 b)	**276.3**	**274.6**	**285.2**	**282.2**	**282.2**
(Under) / over borrowing (Prudential Indicator PI-6)	**(52.8)**	**(37.5)**	**(23.9)**	**(14.0)**	**(1.0)**

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 2013/14 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 no difficulties are currently envisaged for the future. This view takes into account current commitments, existing plans, and the proposals in the Financial Plans for 2012/13.

4.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary (Prudential Indicator PI-7)

a) This is the limit 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	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total Operational Boundary (PI-7a)	**262.2**	**279.7**	**286.2**	**300.6**
Less: Other long term liabilities	59.9	58.2	56.5	71.1
Operational Boundary exc. Other Long Term Liabilities (PI-7b)	**202.3**	**221.5**	**229.7**	**229.5**

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

b) 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, but is not sustainable in the longer term.

c) 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 councils' plans, or those of a specific council, although this power has not yet been exercised.

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

Authorised Limit £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total Authorised Limit (PI-8a)	**298.0**	**321.6**	**323.1**	**330.1**
Less: Other long term liabilities	59.9	58.2	56.5	71.1
Authorised Limit exc. Other Long Term Liabilities (PI-8b)	**238.1**	**263.4**	**266.6**	**259.0**

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	PWLB Borrowing Rates		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

Forecast as at 12 Nov 2012

b) The economic recovery in the UK since 2008 has been the worst with the slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

c) The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Euozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

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

- The Eurozone sovereign debt difficulties provide a clear indication of high 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 2013/14 and beyond.
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully.
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

e) **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. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded by external loan debt as the 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 relatively high. Over the medium term there is an anticipated reduction in capital support from central government and the Council's aim is to ensure 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 2013/14 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *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.

- *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.

Treasury Management Limits on Activity

d) 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 covers a maximum limit for borrowing exposure to fixed interest rates, based on the debt position net of investments.

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

This identifies a maximum limit for borrowing exposure to 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 treasury indicators and limits:

£m	2013/14	2014/15	2015/16
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt (TI-1)	279.7	286.2	300.6
Limits on variable interest rates based on net debt (TI-2)	97.9	100.2	105.2
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%
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) Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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:

- the benefits of borrowing in advance,
- the investment risks created by the existence of investments at the same time as additional borrowing being outstanding, and
- 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:

- the generation of cash savings and/or discounted cash flow savings
- helping to fulfil the treasury strategy
- 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 2013/14

5.1 Investment Objectives and Policy

a) The Council's investment policy has regard to the Scottish Government's Investment (Scotland) Regulations (and accompanying Finance Circular) and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

b) In accordance with the above guidance from the Scottish Government and CIPFA, and in order to minimise the risk to investments, the Council has below (see 5.3 below) clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. Using the Sector ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

c) Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually 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. This is fully intetgrated into the credit methodology provided by the advisors, Sector, in producing its colour codings which show the varying degrees of suggested creditworthiness.

d) 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.

e) The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

f) 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.

g) 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.

h) The Council will ensure 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.

5.2 Council Permitted Investments

a) The Local Government Investments (Scotland) Regulations 2010 requires the Council to give approval for 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.

5.3 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 Counterparty Creditworthiness Rating Methodology. 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) This Council will apply the creditworthiness service provided by Sector in 2013/14. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's (summaries of which are contained in **Annexes E** and **F**). The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

c) This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands*:*

Creditworthiness Colour Banding	Maximum Investment Duration
Purple	2 years
Blue (only applies to nationalised or semi nationalised UK Banks)	1 year
Orange	1 year
Red	6 months
Green	3 months
No colour	not to be used

d) The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to just one agency's ratings. Typically however the minimum credit ratings criteria the Council use would be as follows:

	Standard & Poors	Moodys	Fitch
Short-Term Debt Rating	A-1	P-1	F1
Long-Term Debt Rating	A-	A3	A-
Viability /Financial Strength	N/A	C	a-
Support Rating	N/A	N/A	1

e) There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but the counterparty may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

f) Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

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

c) 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

d) These institutions must either be UK Local Authorities or UK Incorporated Institutions, UK Banks and Building Societies 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).

e) If the UK Government has a significant stakeholding in an institution, the institution can be viewed as a part nationalised bank. Currently Lloyds Banking Group (including the Bank of Scotland) and Royal Bank of Scotland can be classified as Semi-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 above.

f) 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**

g) 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

h) 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 appearing on Sector's creditworthiness list:

Group of Banks **£10m**

Council's Own Banker

i) The Council's own banker (currently Bank of Scotland plc, although the Council's banking transactional services are being tendered at the time of writing) 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. However in the event that the rating does change below the criteria officers will review the situation very carefully and identify any appropriate action required to manage the risk that this change creates for the Council.

j) 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 fulfil the automated next available banking day payments to ensure they are processed efficiently.

5.5 Individual Institution Monetary Limits

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

	Money Limit
UK Building Societies	£5m
Banks	£5m
UK Local Authorities (i)	£40m
UK Government Debt Management Office	Unlimited
UK Gilts & Treasury Bills	£20m
Government Guaranteed Institutions	£2m
AAA rated Money Market Funds	£5m
Part Nationalised Banks	£5m
Council's Own Banker (ii)	£5m

(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 5.4 and 5.5, 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) The time limits for investment duration with institutions are established in paragraph 5.3 f).

c) 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 the table above, these limits will apply to the cumulative investment with an institution from the Council, the Pension Fund, the Common Good Funds and Trust Funds.

5.6 The Monitoring of Investment Counterparties

a) All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

b) If an institution, which already has Council funds deposited with it, 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. This however this will be subject to an appropriate cost versus risk assessment of the specific situation.

c) 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 duration of investments may be restricted.

5.7 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 money market funds, the DMADF and institutions with higher credit ratings than those outlined in the investment strategy or those in which the Government has a significant shareholding. 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:

- ICAP Securities Limited
- Sterling International Brokers Limited
- Tradition (UK) Limited

5.8 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 4 of 2014. Bank Rate forecasts for financial year ends (March) as at November 2012 are:

2012/2013	0.50%
2013/2014	0.50%
2014/2015	0.75%
2015/2016	1.75%

c) There are downside risks to these forecasts (i.e. start of increase to the Bank Rate may be 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 suggested 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	0.60%
2015/16	1.50%

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 positive cash balances, the Council will seek to utilise its business overnight accounts, short term (< 1 month) notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

5.9 Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks are that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

a) Security

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.

b) Liquidity

In respect of this area the Council seeks to maintain:

- Bank Overdraft: £250,000
- Liquid short term deposits of at least £3,000,000 available with a week's notice.
- 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**

c) Yield

Local measures of yield benchmarks are:

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

d) 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

(i) 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 2012/13.

(ii) **Average borrowing rate movement year on year**

Target is to maintain or reduce the average borrowing rate for the Council versus 2012/13.

6.3 **Investment Risk Benchmark Indicators** for Security, Liquidity and Yield, as set out in paragraph 5.9.

6.4 Loan Charges

a) Loan Charges for 2013/14 are expected to be at or below the Revenue Budget estimate contained in the Council's Financial Plans to be approved on 7 February 2013, which are estimated as follows:

£m	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Interest on Borrowing	11.0	11.4	10.5
Investment income	(0.1)	(0.1)	(0.1)
Capital Repayments	10.4	10.0	10.9
Total Loan Charges	**21.3**	**21.3**	**21.3**

b) 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 it does not only rely upon information and advice from 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**

- Working with members of the Audit Committee to identify their training needs
- 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:

- Treasury courses run by the Council's advisers
- Attendance at CIPFA treasury management training events
- Attendance at the CIPFA Scottish Treasury Management Forum and information exchange via the Treasury Management Forum network
- 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.	2013/14	2014/15	2015/16
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure Limits	5	£24.8m	£28.6m	£25.3m
PI-2	Capital Financing Requirement (CFR)	6	£276.3m	£274.6m	£285.2m
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	7	9.16%	9.13%	9.23%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	7	0.02	0.00	0.00
External Debt Indicators					
PI-5	Actual Debt	8	£267.8m	£274.2m	£290.2m
PI-7a	Operational Boundary (inc. Other Long Term Liabilities)	9	£279.7m	£286.2m	£300.6m
PI-7b	Operational Boundary (exc. Other Long Term Liabilities)	9	£221.5m	£229.7m	£229.5m
PI-8a	Authorised Limit (inc. Other Long Term Liabilities)	9	£321.6m	£323.1m	£330.1m
PI-8b	Authorised Limit (exc. Other Long Term Liabilities)	9	£263.4m	£266.6m	£259.0m
Indicators of Prudence					
PI-6	(Under)/Over Net Borrowing against the CFR	8	(£23.9m)	(£14.0m)	(£1.0)m
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt	12	£279.7m	£286.2m	£300.6m
TI-2	Upper Limit to Variable Interest Rates based on Net Debt	12	£97.9m	£100.2m	£105.2m
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	20	20%	20%	20%

ANNEX B
Interest Rate Forecast 2012/2016 (as at 12 Nov 12)

Sector's Interest Rate View	Now	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 Month LIBID	0.40%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%	1.90%
6 Month LIBID	0.56%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%	2.20%
12 Month LIBID	0.92%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%	2.40%
5yr PWLB Rate	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yr PWLB Rate	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yr PWLB Rate	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yr PWLB Rate	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
Bank Rate															
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	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	1.66%	1.50%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.66%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.66%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	2.64%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.64%	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.64%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	3.88%	3.70%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	3.88%	4.00%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	3.88%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	4.04%	3.90%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.04%	4.10%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.04%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

ANNEX C
Economic Background

Global Economy

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy. This recession is the worst with the slowest recovery of any of the five recessions since 1930.

The **Eurozone sovereign debt crisis** has abated somewhat following the ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request (for a national bailout) and so surrendering its national sovereignty to IMF supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the time frame for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP i.e. unsustainably high, unless the Eurozone were to accept a major write down of Greek debt. The possibility of a write down has now been raised by the German Chancellor, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

Hopes for a broad based recovery have, therefore, focused on the **emerging markets**. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it could be in risk of heading for a hard landing rather than a gradual slow down.

The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended in the autumn statement over a longer period than the original four years. Achieving this new extended time frame will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period. It was important for the Government to retain investor confidence in UK gilts so there was little room for it to change course other than to move back the timeframe.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering or that the manufacturing sector is picking up. On the positive side, growth in the services sector rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. Economic growth has basically flat-lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE to stimulate economic activity regardless of any near-term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years. Moody's has stated that it will review the UK's Aaa rating at the start of 2013.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. There does however appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;

- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; 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 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 are unlikely to be achieved;

- the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;

- stimulus packages failing to stimulate growth;

- elections due in Germany in 2013;

- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

- the potential for action to curtail the Iranian nuclear programme

- the situation in Syria deteriorating and impacting other countries in the Middle East

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints. 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. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks to PWLB rates and gilt yields, and especially to longer term rates and yields as follows:

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields.
- Reversal of QE: this could initially occur by allowing gilts held by the Bank to mature without reinvesting in new purchases, later followed by outright sale of gilts currently held.
- Reversal of Sterling’s safe haven status on an improvement in financial stresses in the Eurozone.
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth.
- The possibility of a UK credit rating downgrade (Moody’s has stated that it will review the UK’s Aaa rating at the start of 2013).

Source: Sector Treasury Services Ltd, December 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, 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 realizable 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 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

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	**aa – aaa**
A strong bank	**bbb – aa-**
An adequate bank	**bb+ – bbb-**
A bank with weaknesses	**ccc – bb**
A bank with very serious problems	**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**

Annex G

Benchmarking and Monitoring Security, Liquidity and Yield

The consideration and approval of security and liquidity benchmarks are also part of Member reporting. 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. Benchmarks for the cash type investments are below. In the other investment categories appropriate benchmarks will be used where available.

Liquidity
This is defined as an organisation "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
- Liquid short term deposits of at least £3,000,000 available with a week's notice.

The availability of liquidity 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 the 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 Sector's Creditworthiness Policy. 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 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 Annual Treasury Management Report. As this data is collated, trends and analysis will be collected and reported.

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	Public-Private Partnership.
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
1.0	Updated TMS	14/12/12	NC
2.0	Updated for Creditworthiness Policy	4/1/13	LM
3.0	Updated Post Audit Committee 14 January 2013	17/1/13	LM
4.0	Final RSL figure updates	21/1/13	NC

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below.

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ITEM 8

CAPITAL FINANCIAL RESOURCES 2013/14 TO 2022/23

Report by CHIEF FINANCIAL OFFICER

SCOTTISH BORDERS COUNCIL

7 FEBRUARY 2013

1 PURPOSE AND SUMMARY

1.1 **This report advises Council of the estimated capital resources for 2013/14 to 2022/23.**

1.2 The report outlines the process supporting the compilation of the draft 10 year Capital Financial Plan, comprising a long term 7 year Strategic Plan plus 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 2013/14 to 2022/23;
and

(b) Proceeds to consider the Administration's Draft Capital Financial Plan for 2013/14 to 2022/23.

3 BACKGROUND

3.1 The current Capital Financial Plan was approved by the Council on 9 February 2012 and covered the period 2012/13 to 2021/22. It has been split into a 3 year Operational Plan and an indicative Strategic Plan for the remaining 7 years in line with the recommendations of the 2009/10 review of Capital Planning and Monitoring processes. The Strategic element of the plan is designed to provide an indication of the requirement to deploy future capital to enhance the Council asset base. The current plan has been subject to regular review with monitoring reports being presented to Executive in June, September, October 2012 and the Capital Management Group 10 January 2013, with the final monitoring report in the financial year 2012/13 to be presented to the Executive on 12 February 2013.

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 The 2013/14 to 2022/23 Capital plan has been developed in line with the approach adopted for the previous 10 year Capital plan. It is acknowledged that this will be subject to ongoing refinement and review and be subject to amendment reflecting the priorities of the new Council administration.

4 THE CAPITAL FINANCE SETTLEMENT 2013/14

4.1 The Scottish Government Local Finance Settlement (the Settlement), issued in November 2012, provided a two year General and Specific Capital Grant allocation to the Council.

4.2 The Settlement for the two years is as follows:

£000	**2013/14**	**2014/15**
	£000's	**£000's**
General Capital Grant	11,041	14,557
Less: Police Authority Capital Allocation	(317)	(465)
General Capital Grant available to the Council	10,724	14,092
Specific Capital Grant – Cycling, Walking & Safer Streets	121	177
Flood Protection (exclusive of 12/13 slippage)	1,820	482

4.3 The General Capital Grant assumption from 2015/16 has been an increase from £9m to £11.5m for 2015/16 and £10m for 2016/17 onwards. This reflects the increased resources in the current settlement. However it must be acknowledged that this is only a planning assumption at this stage and will potentially be subject to revision as the resources available from future settlements are confirmed.

5 CAPITAL RESOURCES 2013/14 TO 2022/23

5.1 The principles of affordability and sustainability have been applied in developing the draft Capital Financial Plan 2013/14 to 2022/23, financed by Loan Charges of £21.3m per annum. The 7 year Strategic Plan (excluding Plant and Vehicle Replacement) has been maintained at an average of £14.2m per annum and reflects future assumptions concerning grant levels. As mentioned in para 4.3 this will be revised as actual future settlements are confirmed.

5.2 The total capital resources assumed throughout the 10 years of the draft Capital Plan have increased by £25.9m. This increase is detailed below:

	£m
Capital Receipts	1.3
Capital Funded from Current Revenue (CFCR)	0.5
General Capital Grant Funding	9.0
Specific Government Grant Funding	9.6
Other Grants & Contributions	2.6
Borrowing	2.8
Total Additional Resources	**25.9**

5.3 The capital receipts estimate has been fully re-appraised and includes a reduction of £1.1m (predominantly due to a £0.8m reduction in the receipts anticipated from the sale of former high school sites). This is off-set by the application of a £2.4m capital receipt that is currently sitting in the Capital Fund on the Balance Sheet to support the cost of the new Kelso High School project.

5.4 The increase of £9.6m in Specific Government Grant Funding represents the £9.9m grant awarded for Kelso High School offset by a small reduction in the Galashiels Flood Protection Grant.

5.5 The draft Capital Plan also includes funding from other external sources with specific conditions attached. Full funding agreements are not in place for all of these funds (detailed in para 7.2 (e)) with a number either awaiting decisions' from the funding bodies or waiting for applications to be submitted. The amounts included in the expenditure proposals assumes these bids/applications will be successful, if however they are unsuccessful reports will be bought to Committee on an exception basis.

5.6 The draft Capital Plan includes an overall increase in borrowing; however, this is lower than the Council's contribution required for Kelso High School. The additional borrowing has been profiled to ensure it remains within the current Loans Charges budget specified in the financial strategy of £21.3m.

6 THE CAPITAL FINANCIAL PLAN 2013/14 TO 2022/23

6.1 The draft Capital Plan 2013/14 to 2022/23 has been fully reviewed to ensure its affordability and deliverability.

6.2 The main changes incorporated in the draft Capital Plan are detailed in paras 6.3 to 6.6.

6.3 **Engineering & Infrastructure**

(a) **Roads, Bridges, Lighting and Transport**

The proposals incorporate additional funding totalling £6.5m over the plan. These include £0.551m for matched funding for the GIRR5 regeneration project in Galashiels, and £0.598m additional funds for roads, bridges and street lighting. An additional £5m has also been allocated to implement energy efficient street lighting, which will reduce future revenue costs.

(b) **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. The bids for Flood Protection, now being sought by Scottish Government, are being developed and it is expected that the order of bids will be, Selkirk and then Hawick (2009 Act).

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

Due to the delay in implementation of the Waste Treatment facility the cell development at Easter Langlee requires to be bought forward into the 10 year programme. £1.2m has been incorporated into the plan to accommodate this.

(d) **Waste Management –Various**

To ensure the Council can meet the requirements of the Zero Waste plan, environmental obligations and Health and Safety responsibilities a number of key waste projects have been incorporated into the plan totalling £0.652m. These projects include improvements to Community Recycling Sites and landfill sites.

6.4 **Land & Property**

(a) **School Estate – Duns PS Relocation including Locality Support Centre**

Following extensive option appraisal the proposed plan incorporates the recommended revised scope and costs for relocating the current primary school to the old high school site and includes a locality support centre. An additional £1m has been added to the budget giving total proposed budget of £6.9m, of which £3m is funding from Scottish Government.

(b) **School Estate – Kelso High School**

The new Kelso High School has been included at full capital construction costs of £18.6m. The Council has been successful in securing match funding of 66% (£9.9m) of the educational facilities (excluded land purchase and project management) from the Scottish Government. The mechanism for payment of this funding has still to be finally determined.

(c) **School Estate – Galashiels School Provision**

A budget of £11m has been incorporated into the draft plan to facilitate the provision of additional capacity, within the Langlee area of Galashiels, to support the housing developments in the area. It also includes an element of funding to allow work to be commenced to examine at the suitability of space within Galashiels Academy.

(d) **School Estate – School Refurbishments and capacity Projects**

To accommodate the inclusion of Kelso High School and the Galashiels School Provision projects the proposed budget for the School Refurbishment and Capacity Projects has been reduced over the 10 year draft plan to £14.7m.

(e) **School Estate – Peebles High School – Sports Facility**

The proposed budget has been increased to include the £0.5m of match funding bid to SportsScotland. The application is currently being considered and confirmation of Grant award is awaited.

(f) **Community Services – Duns Community Hub**

The previously approved Duns Community Hub budget of £0.5m has been removed from the draft plan as the required out-comes of the project has been accommodated within the revised relocation of Duns Primary School project.

(g) **Community Services – Selkirk Synthetic Pitch**

In line with priorities for Sports Hubs at each high school the draft plan includes provision of £0.9m, for a synthetic pitch at Selkirk. The plan includes £0.45m on the assumption that external match funding will be obtained from SportsScotland. The grant application has yet to be compiled.

(h) **Social Work – Social, Behavioural and Emotional Needs Facilities.**

The draft plan incorporates £0.9m for the creation of a centralised facility that is accessible to more young people and families who cannot be supported in main stream facilities. In addition it will allow the redeployment of both staff and resources to enable the more efficient operation of the service and create better links with local schools.

(i) **Corporate Property – Headquarters Building**

The draft plan incorporates £0.39m for work on the headquarters building fabric. This will allow for essential refurbishment and replacement of life expired windows and roof coverings with thermally efficient alternatives which will assist the Council to meet future carbon reduction targets.

(j) **Environment & Infrastructure Property – Play Facilities**

The draft plan incorporates additional resources of £0.35m for the ongoing investment in play facilities enhancements.

(k) **Environment & Infrastructure – Drainage Parks & Open Spaces**

The draft plan incorporates £0.76m to facilitate the delivery of a number of landscape drainage improvements projects throughout the region.

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

The draft plan proposes a reduced budget of £0.45m which reflects the funding split between Capital and Revenue. The main element of the regeneration project will be grants to individual property owners and therefore not capital expenditure for Scottish Borders Council.

(m) **Economy & Regeneration – Newtown StBoswells Village Centre**

The draft plan incorporates £0.4m from 2016/17 to facilitate a planned and phased approach to the regeneration and development of the village centre. This is 50% funded from Developer Contributions.

(n) **Economy & Regeneration – Wilton Lodge Park**

The draft plan incorporates £3.4m for the proposed re-development of Wilton Lodge Park. This project has been successful in obtaining £2.6m external funding from Heritage Lottery Fund leaving the balance of £0.8m match funding from Scottish Borders Council.

(o) **Economy & Regeneration – Demolition & Site Preparation**

The draft plan incorporates £0.5m for the demolition and site preparation costs at the old Earlston High School site. This will enhance the site to enable its release to support the delivery of additional housing.

(p) **Property & Asset Programme**

The plan incorporates £1m additional funding over the 10 year programme to reflect the continued pressure to deliver works to address deficiencies in the condition of the Council's property estate, across all departments

6.5 **Business Infrastructure**

(a) **Business Applications – Business Systems Development & Minor IT Projects**

The draft plan incorporates a reduction of £0.226m to enable the provision of additional resources to be allocated to Technical IT Infrastructure. This leaves a remaining budget of £1.1m over the 10 year plan.

(b) **Business Applications – Corporate Applications Suite**

The draft plan incorporates a reduction of £0.3m due to reduced requirements in the later years of the plan. This leaves a remaining budget of £2.2m to develop and upgrade the core corporate business applications of the Council.

(c) **Technical IT Infrastructure – Infrastructure & Microsoft Refresh**

The draft plan incorporates an additional £0.355m in 2022/23 to allow the continuation of the rolling programme of investment.

(d) **Technical IT Infrastructure – Triple Wi-Fi**

The draft plan incorporates £0.28m to facilitate the roll-out of Triple Wi-Fi across the Council's 4 areas offices and 9 high schools. This will enhance the Council's approach to work style transformation, partnership working and partnership co-location which are currently restricted due to the current infrastructure.

6.6 **Other**

(a) **Other -Emergency & Unplanned Schemes**

The Emergency & Unplanned Schemes allocation has been reduced to £0.3m per annum over the 10 years. This was required to produce an affordable overall capital programme within current revenue affordability.

7 **IMPLICATIONS**

7.1 **Financial**

(a) The financial implications are covered in Section 5 and 6 of this report.

(b) Pending the confirmation of the Council's 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 of this report.

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, these 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) The Transforming Older Peoples Review identified that there is a requirement to increase provision of Extra Care Housing in the Borders. However the proposed solution in currently unclear and consequently no provision has been included within the draft plan. There is a risk the need will be required to be met within the 10 years of plan.

(c) The requirement develop an additional bridge in Peebles to allow the regeneration and development of the town has been identified within the next few years as the existing bridge is currently projected to reach capacity in 2020. There has been no allowance within in the plan for this however work is currently ongoing to review options and further reports will be forthcoming.

(e) There are a number of projects within the draft plan which are reliant on funding from external sources which have yet to be confirmed or applied for. These are:

Project	**£m**
Peebles High School Sport facilities	0.50
Selkirk Synthetic Pitch	0.45
Selkirk Town Centre Regeneration	0.10
Total	**1.05**

If the above external funds are not received the scope of the projects will require to be reviewed or funds found from within other areas of the plan.

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 the projects within the Social Work workstream of Land & Property, are about ensuring social cohesion in the Scottish Borders is supported and enhanced.

(b) There are key, major projects included in the draft Capital Financial Plan which have the primary purpose of protecting and enhancing 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 Information Services 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

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Lynn Mirley Kirsty Robb	Corporate Finance Manager (01835 825016) Treasury & Capital Manager (01835 825249)

Background Papers:
Capital Budget Working Papers, ABWG Papers and Minutes 4 December 2012, Administration 18 December 2012

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.

Contact us at
Treasury & Capital Team, Finance,
Scottish Borders Council, Council HQ, Newtown St Boswells, MELROSE TD6 0SA
Telephone: 01835 824000
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Item 9

Draft Capital Financial Plan
2013/14 - 2022/23

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

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Newtown St Boswells
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Scottish Borders Council
Proposed Draft Capital Financial Plan 2013/14 - 2022/23

SUMMARY	OPERATIONAL PLAN			3 Year Total	STRATEGIC PLAN							10 Year Total
	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Engineering Infrastructure												
Roads, Bridges, Lighting & Transport	6,477	8,429	4,420	**19,326**	4,624	4,748	7,348	4,232	3,548	3,548	3,548	**50,922**
Flood & Coast Protection	3,230	827	656	**4,713**	1,700	1,600	421	600	800	504	100	**10,438**
Waste Management	540	1,155	1,013	**2,708**	434	978	456	198	83	831	200	**5,888**
Engineering & Infrastructure - Other	52	52	52	**156**	52	52	52	52	52	52	52	**520**
TOTAL ENGINEERING INFRASTRUCTURE	**10,299**	**10,463**	**6,141**	**26,903**	**6,810**	**7,378**	**8,277**	**5,082**	**4,483**	**4,935**	**3,900**	**67,768**
Land & Property												
School Estate	6,464	7,618	8,560	**22,642**	10,819	3,630	4,200	4,120	5,350	5,500	5,440	**61,701**
Community Services	350	310	1,210	**1,870**	365	940	330	330	330	330	330	**4,825**
Social Work	420	659	1,066	**2,145**	1,200	252	0	0	0	0	0	**3,597**
Corporate Property	165	375	150	**690**	150	0	0	0	0	0	0	**840**
Environment & Infrastructure - Property	400	205	205	**810**	100	100	100	100	250	250	50	**1,760**
Regeneration	2,977	1,286	902	**5,165**	973	593	103	168	63	0	0	**7,065**
Property & Asset Programme	1,000	1,000	1,000	**3,000**	1,165	1,365	1,365	1,465	1,465	1,475	1,515	**12,815**
TOTAL LAND & PROPERTY	**11,776**	**11,453**	**13,093**	**36,322**	**14,772**	**6,880**	**6,098**	**6,183**	**7,458**	**7,555**	**7,335**	**92,603**
Business Infrastructure												
Business Applications	191	150	87	**428**	307	595	595	240	345	595	240	**3,345**
Technical IT Infrastructure	1,893	5,120	5,333	**12,346**	1,080	780	780	1,135	1,030	780	1,135	**19,066**
TOTAL BUSINESS INFRASTRUCTURE	**2,084**	**5,270**	**5,420**	**12,774**	**1,387**	**1,375**	**1,375**	**1,375**	**1,375**	**1,375**	**1,375**	**22,411**
Fleet												
Plant & Vehicle Fund Replacement	0	0	0	**0**	0	0	0	0	0	0	0	**0**
Other Fleet	0	750	0	**750**	0	0	300	450	0	0	0	**1,500**
TOTAL FLEET	**0**	**750**	**0**	**750**	**0**	**0**	**300**	**450**	**0**	**0**	**0**	**1,500**
Other												
Emergency & Unplanned Schemes	300	300	300	**900**	300	300	300	300	400	400	400	**3,300**
Private Sector Housing Grant	340	340	340	**1,020**	340	340	375	375	375	375	375	**3,575**
TOTAL OTHER	**640**	**640**	**640**	**1,920**	**640**	**640**	**675**	**675**	**775**	**775**	**775**	**6,875**
Total Capital Plan	**24,799**	**28,576**	**25,294**	**78,669**	**23,609**	**16,273**	**16,725**	**13,765**	**14,091**	**14,640**	**13,385**	**191,157**

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Engineering Infrastructure	**OPERATIONAL PLAN**			**3 Year Total**	**STRATEGIC PLAN**							**10 Year Total**
Roads, Bridges, Lighting & Transport	**2013/14 £000**	**2014/15 £000**	**2015/16 £000**	**£000**	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**£000**
Galashiels Developments												
Inner Relief Road 3	5	0	0	**5**	0	0	0	0	0	0	0	**5**
Inner Relief Road 4	120	0	0	**120**	0	0	0	0	0	0	0	**120**
Inner Relief Road 5 - Streetscape/ Gala Regeneration	50	10	15	**75**	276	200	0	0	0	0	0	**551**
Transport Interchange	2,228	4,591	57	**6,876**	0	0	0	0	0	0	0	**6,876**
Galashiels Developments Programme	2,403	4,601	72	**7,076**	276	200	0	0	0	0	0	**7,552**
A72 Dirtpot Corner - Road Re-alignment	0	0	0	**0**	0	200	3,000	184	0	0	0	**3,384**
Strategic Route Improvements Schemes	2,403	4,601	72	**7,076**	276	400	3,000	184	0	0	0	**10,936**
Roads (including RAMP, CCTV & Winter Damage)	2,180	2,030	2,560	**6,770**	2,560	2,560	2,560	2,760	2,760	2,760	2,760	**25,490**
Bridges Asset Management Plan	550	400	400	**1,350**	400	400	400	400	400	400	400	**4,150**
Lighting Asset Management Plan	300	300	200	**800**	200	200	200	200	200	200	200	**2,200**
Energy Efficient Street Lighting	0	500	1,000	**1,500**	1,000	1,000	1,000	500	0	0	0	**5,000**
Accident Investigation Prevention Schemes	50	50	50	**150**	50	50	50	50	50	50	50	**500**
Cycling, Walking & Safer Streets	121	178	138	**437**	138	138	138	138	138	138	138	**1,403**
Railway Black Path	80	370	0	**450**	0	0	0	0	0	0	0	**450**
Kelso Town Traffic Mgt Scheme	793	0	0	**793**	0	0	0	0	0	0	0	**793**
Other Roads, Bridges, Lighting & Transport	4,074	3,828	4,348	**12,250**	4,348	4,348	4,348	4,048	3,548	3,548	3,548	**39,986**
Total Roads, Bridges, Lighting & Transport	**6,477**	**8,429**	**4,420**	**19,326**	**4,624**	**4,748**	**7,348**	**4,232**	**3,548**	**3,548**	**3,548**	**50,922**

Scottish Borders Council
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Engineering Infrastructure	OPERATIONAL PLAN			3 Year Total	STRATEGIC PLAN							10 Year Total
	2013/14 £000	2014/15 £000	2015/16 £000	£000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000
Flood & Coast Protection												
Galashiels Flood Protection	2,730	333	0	**3,063**	0	0	0	0	0	0	0	**3,063**
Selkirk Flood Protection	300	44	100	**444**	1,500	1,500	321	0	0	0	0	**3,765**
Hawick Flood Protection	50	200	206	**456**	100	0	0	500	700	404	0	**2,160**
Skiprunning Burn Works, Jedburgh	50	150	250	**450**	0	0	0	0	0	0	0	**450**
Flood Protection Works, Efficiency and Emergency Measures	100	100	100	**300**	100	100	100	100	100	100	100	**1,000**
Total Flood & Coast Protection	**3,230**	**827**	**656**	**4,713**	**1,700**	**1,600**	**421**	**600**	**800**	**504**	**100**	**10,438**
Waste Management												
Management of Closed Landfill Sites - Dunion	39	100	0	**139**	0	0	0	0	0	0	0	**139**
Waste Treatment Facility	106	902	27	**1,035**	0	0	0	0	0	0	0	**1,035**
Wheeled Bins	32	32	32	**96**	32	33	34	35	35	36	37	**338**
Food Waste & Glass Collections	0	3	10	**13**	13	13	14	13	13	14	13	**106**
Easter Langlee Leachate Management	62	30	70	**162**	216	932	100	0	0	0	0	**1,410**
Easter Langlee Cell 3 Leachate Pumping System	0	30	0	**30**	0	0	0	0	0	0	0	**30**
Improve Skip Infrastructure - Community Recycling Centres	100	0	70	**170**	0	0	150	0	0	0	0	**320**
Community Recycling Centres - Enhancements	57	0	0	**57**	0	0	48	0	0	0	0	**105**
Waste Transfer Station Health and Safety Works	19	18	18	**55**	18	0	0	0	0	0	0	**73**
Telemetry Systems - Old Landfill Sites	0	0	0	**0**	0	0	10	0	0	0	0	**10**
Easter Langlee Cell Provision	125	40	786	**951**	155	0	100	150	35	781	150	**2,322**
Total Waste Management	**540**	**1,155**	**1,013**	**2,708**	**434**	**978**	**456**	**198**	**83**	**831**	**200**	**5,888**
Engineering & Infrastructure - Other												
Contaminated Land	52	52	52	**156**	52	52	52	52	52	52	52	**520**
Total E&I - Other	**52**	**52**	**52**	**156**	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**520**
TOTAL ENGINEERING INFRASTRUCTURE	**10,299**	**10,463**	**6,141**	**26,903**	**6,810**	**7,378**	**8,277**	**5,082**	**4,483**	**4,935**	**3,900**	**67,768**

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Land & Property	OPERATIONAL PLAN			3 Year	STRATEGIC PLAN							10 Year
	2013/14	2014/15	2015/16	Total	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
School Estate												
West Linton PS	1,200	30	0	**1,230**	0	0	0	0	0	0	0	**1,230**
Duns PS Relocation inc. Locality Support Centre	465	3,025	2,755	**6,245**	667	0	0	0	0	0	0	**6,912**
School Health & Safety Projects	185	285	385	**855**	400	400	400	400	400	400	400	**3,655**
School Refurbishment & Capacity Projects	100	280	200	**580**	500	3,030	3,600	1,520	1,750	1,900	1,840	**14,720**
Peebles HS Sports Facilities	4,294	12	0	**4,306**	0	0	0	0	0	0	0	**4,306**
Galashiels Schools Provision	0	0	0	**0**	0	0	0	2,000	3,000	3,000	3,000	**11,000**
Kelso HS	120	3,986	5,220	**9,326**	9,252	0	0	0	0	0	0	**18,578**
School Kitchen Improvements Programme	100	0	0	**100**	0	200	200	200	200	200	200	**1,300**
			#									
Total School Estate	**6,464**	**7,618**	**8,560**	**22,642**	**10,819**	**3,630**	**4,200**	**4,120**	**5,350**	**5,500**	**5,440**	**61,701**
Community Services												
Lauder Pavilion/Park	10	0	0	**10**	0	0	0	0	0	0	0	**10**
Sports Trusts - Plant & Services	290	290	290	**870**	290	290	290	290	290	290	290	**2,900**
Jim Clark Motor Museum Relocation	0	20	0	**20**	35	610	0	0	0	0	0	**665**
Community Asset Transfer	0	0	20	**20**	40	40	40	40	40	40	40	**300**
Sir Walter Scott's Courtroom H & S	25	0	0	**25**	0	0	0	0	0	0	0	**25**
Sir Walter Scott's Courtroom Interpretation	25	0	0	**25**	0	0	0	0	0	0	0	**25**
Selkirk Synthetic Pitch	0	0	900	**900**	0	0	0	0	0	0	0	**900**
Total Community Services	**350**	**310**	**1,210**	**1,870**	**365**	**940**	**330**	**330**	**330**	**330**	**330**	**4,825**

Scottish Borders Council
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Land & Property	OPERATIONAL PLAN			3 Year Total	STRATEGIC PLAN							10 Year Total
	2013/14 £000	2014/15 £000	2015/16 £000	£000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000
Social Work												
TOPS - Residential Care Home Upgrade	275	294	271	**840**	0	0	0	0	0	0	0	**840**
TOPS - Telecare	75	50	75	**200**	0	0	0	0	0	0	0	**200**
Complex Needs - Central Education Base	0	165	700	**865**	700	0	0	0	0	0	0	**1,565**
Locality Working	0	0	20	**20**	0	0	0	0	0	0	0	**20**
Learning Disability Day Services	20	0	0	**20**	0	0	0	0	0	0	0	**20**
Social, Emotional and Behavioural and Needs Facilities	0	150	0	**150**	500	252	0	0	0	0	0	**902**
Falls Prevention in Older Peoples' Homes	50	0	0	**50**	0	0	0	0	0	0	0	**50**
Total Social Work	**420**	**659**	**1,066**	**2,145**	**1,200**	**252**	**0**	**0**	**0**	**0**	**0**	**3,597**
Corporate Property												
Work Style Transformation/Office Accommodation	75	75	150	**300**	150	0	0	0	0	0	0	**450**
HQ Main Office Block	90	300	0	**390**	0	0	0	0	0	0	0	**390**
Total Corporate Property	**165**	**375**	**150**	**690**	**150**	**0**	**0**	**0**	**0**	**0**	**0**	**840**
Environment & Infrastructure - Property												
Play Facilities	50	50	50	**150**	50	50	50	50	50	50	50	**500**
Cemetery Land Acquisition & Development	200	100	100	**400**	0	0	0	0	0	0	0	**400**
Haylodge Park, Peebles	100	0	0	**100**	0	0	0	0	0	0	0	**100**
Drainage in Parks and Open Spaces	50	55	55	**160**	50	50	50	50	200	200	0	**760**
Total Environment & Infrastructure - Property	**400**	**205**	**205**	**810**	**100**	**100**	**100**	**100**	**250**	**250**	**50**	**1,760**

Scottish Borders Council
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Land & Property	**OPERATIONAL PLAN**			**3 Year Total**	**STRATEGIC PLAN**							**10 Year Total**
Regeneration	**2013/14 £000**	**2014/15 £000**	**2015/16 £000**	**£000**	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**£000**
LUPS Strategic Business Land	1,391	20	0	**1,411**	0	0	0	0	0	0	0	**1,411**
Kelso Townscape Heritage Initiative	774	0	0	**774**	0	0	0	0	0	0	0	**774**
Sunnybrae, Walkerburn	152	0	0	**152**	0	0	0	0	0	0	0	**152**
Hawick 500Yr Commemorative Statue	40	0	0	**40**	0	0	0	0	0	0	0	**40**
Selkirk Town Centre Regeneration Project	0	0	0	**0**	50	400	0	0	0	0	0	**450**
Newtown St Boswells Village Centre Regeneration	0	0	0	**0**	23	43	103	168	63	0	0	**400**
Bongate Mill Ind Area, Jedburgh - Phase 1 Regeneration	0	86	2	**88**	0	0	0	0	0	0	0	**88**
Demolition & Site Preparation	220	280	0	**500**	0	0	0	0	0	0	0	**500**
Wilton Lodge Park	400	900	900	**2,200**	900	150	0	0	0	0	0	**3,250**
Total Regeneration	**2,977**	**1,286**	**902**	**5,165**	**973**	**593**	**103**	**168**	**63**	**0**	**0**	**7,065**
Property & Asset Programme												
Structural / H&S Works	300	300	300	**900**	465	465	465	465	465	465	465	**4,155**
Asbestos Management	100	100	100	**300**	100	100	100	100	100	100	100	**1,000**
Building Fabric Upgrades	150	150	150	**450**	150	350	350	450	450	460	500	**3,160**
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**	**1,165**	**1,365**	**1,365**	**1,465**	**1,465**	**1,475**	**1,515**	**12,815**
TOTAL LAND & PROPERTY	**11,776**	**11,453**	**13,093**	**36,322**	**14,772**	**6,880**	**6,098**	**6,183**	**7,458**	**7,555**	**7,335**	**92,603**

Scottish Borders Council
Proposed Draft Capital Financial Plan 2013/14 - 2022/23

Business Infrastructure	OPERATIONAL PLAN			3 Year Total	STRATEGIC PLAN							10 Year Total
	2013/14 £000	2014/15 £000	2015/16 £000	£000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000
Business Applications												
E-Procurement/Corporate Financial Systems	12	0	0	**12**	0	0	0	0	0	0	0	**12**
Business Systems - Social Work - Homecare & Financial	70	70	12	**152**	12	0	0	0	0	0	0	**164**
Business Systems Development	79	50	50	**179**	50	50	50	50	50	50	50	**529**
Minor IT Projects	30	30	25	**85**	50	50	50	50	50	50	50	**435**
Corporate Applications Suite (CAS)	0	0	0	**0**	195	495	495	140	245	495	140	**2,205**
Total Business Applications	**191**	**150**	**87**	**428**	**307**	**595**	**595**	**240**	**345**	**595**	**240**	**3,345**
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	0	0	0	**0**	250	0	0	0	250	0	0	**500**
Infrastructure & Microsoft Refresh	7	0	350	**357**	50	0	0	355	0	0	355	**1,117**
Curricular Networks Replacement	917	462	383	**1,762**	380	380	380	380	380	380	380	**4,422**
Print Strategy	137	0	0	**137**	0	0	0	0	0	0	0	**137**
Financial Systems Infrastructure Development	30	30	0	**60**	0	0	0	0	0	0	0	**60**
Next Generation Broadband (BDUK)	0	4,200	4,200	**8,400**	0	0	0	0	0	0	0	**8,400**
Triple Wi-Fi Provision	280	0	0	**280**	0	0	0	0	0	0	0	**280**
Sharepoint Document Management	45	0	0	**45**	0	0	0	0	0	0	0	**45**
Additional Server Storage for Data Growth	23	8	0	**31**	0	0	0	0	0	0	0	**31**
Unaltering Power Supply Replacement	0	20	0	**20**	0	0	0	0	0	0	0	**20**
HQ Server Replacements	12	0	0	**12**	0	0	0	0	0	0	0	**12**
Network Rationalisation	42	0	0	**42**	0	0	0	0	0	0	0	**42**
Total Technical IT Infrastructure	**1,893**	**5,120**	**5,333**	**12,346**	**1,080**	**780**	**780**	**1,135**	**1,030**	**780**	**1,135**	**19,066**
TOTAL BUSINESS INFRASTRUCTURE	**2,084**	**5,270**	**5,420**	**12,774**	**1,387**	**1,375**	**1,375**	**1,375**	**1,375**	**1,375**	**1,375**	**22,411**

Scottish Borders Council
Proposed Draft Capital Financial Plan 2013/14 - 2022/23

Fleet	OPERATIONAL PLAN			3 Year Total	STRATEGIC PLAN							10 Year Total
Fleet	2013/14 £000	2014/15 £000	2015/16 £000	£000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000
Plant & Vehicle Replacement				**0**								**0**
Other Fleet	0	750	0	**750**	0	0	300	450	0	0	0	**1,500**
Total Fleet	**0**	**750**	**0**	**750**	**0**	**0**	**300**	**450**	**0**	**0**	**0**	**1,500**
Other												
Biddable Allocations												
Emergency & Unplanned Schemes	300	300	300	**900**	300	300	300	300	400	400	400	**3,300**
Private Sector Housing Grant												
Private Sector Housing Grant - Adaptations	340	340	340	**1,020**	340	340	375	375	375	375	375	**3,575**
TOTAL OTHER	**640**	**640**	**640**	**1,920**	**640**	**640**	**675**	**675**	**775**	**775**	**775**	**6,875**

Scottish Borders Council
Proposed Draft Capital Financial Plan 2013/14 - 2022/23

Estimated Funding	OPERATIONAL PLAN			3 Year Total	STRATEGIC PLAN							10 Year Total
	2013/14 £000	2014/15 £000	2015/16 £000	£000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	£000
Capital Fund/Capital Receipts	830	2,427	1,921	**5,178**	760	2,630	1,000	0	0	0	0	**9,568**
CFCR	0	0	450	**450**	0	0	0	0	0	0	0	**450**
Developer Contributions	100	100	100	**300**	100	100	100	100	100	100	100	**1,000**
General Capital Grant from Scottish Govt.	8,783	13,433	11,500	**33,716**	10,000	10,000	10,000	10,000	10,000	10,000	10,000	**103,716**
Specific Capital Grants from Scottish Govt.	2,305	443	5,358	**8,106**	4,818	138	138	138	138	138	138	**13,752**
Other Grants and Contributions	2,410	4,992	1,170	**8,572**	743	171	139	62	40	0	0	**9,727**
Plant & Vehicle Replacement Fund	0	0	0	**0**	0	0	0	0	0	0	0	**0**
Borrowing	10,371	7,181	4,795	**22,347**	7,188	3,234	5,348	3,465	3,813	4,402	3,147	**52,944**
Total Estimated Funding	**24,799**	**28,576**	**25,294**	**78,669**	**23,609**	**16,273**	**16,725**	**13,765**	**14,091**	**14,640**	**13,385**	**191,157**

Item 10

PROVIDING LOAN FACILITIES TO BORDERS BASED REGISTERED SOCIAL LANDLORDS

Joint Report by Chief Financial Officer & Director of Social Work

SCOTTISH BORDERS COUNCIL

7 FEBRUARY 2013

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to seek approval from Members to provide a loan facility to Berwickshire Housing Association (BHA), Eildon Housing Association (EHA) and Scottish Borders Housing Association (SBHA).**

1.2 The Council has agreed the principle of lending at its meeting of 15 December 2011 and the proposal outlined in this report is to provide the loan facility, to the 3 Registered Social Landlords (RSLs). The amount requested by the above 3 RSLs is £13.0 million. It is envisaged that this lending will assist the development of up to 163 additional affordable housing units which have been previously identified and prioritised via the Council's Strategic Housing Investment Plan (SHIP) processes.

1.3 The provision of these loan facilities is conditional on obtaining Scottish Government consent to borrow to lend and agreement of the terms and conditions with each RSL.

1.4 Appendix 1 contains a summary of the proposed outline terms and conditions that will be negotiated with the RSLs.

2 RECOMMENDATIONS

2.1 **It is recommended that subject to Scottish Government approval the Council:-**

(a) **Agrees to providing an secured loan facility of up to £5.0 million to BHA to assist affordable housing developments at Acredale Eyemouth and Todlaw Duns, in line with the Council's Strategic Housing Investment Plan (SHIP) 2012/15.**

(b) **Agrees to providing a secured loan facility of up to £5.0 million to EHA to assist affordable housing developments at Newcastleton, Stichill, Peebles, Lauder and Galashiels in line with the Council's SHIP 2012/15.**

(c) **Agrees to providing a secured loan facility of up to £3.0 million to SBHA to assist affordable housing developments at Stonefield and Deanfield, Hawick in line with the Council's SHIP 2012/15.**

(d) **Agrees that powers be delegated to the Chief Financial Officer and the Head of Legal and Democratic Services to finalise the associated financial and legal issues and proceed to provide the**

loan facilities to BHA, SBHA and EHA.

3 BACKGROUND

3.1 At its meeting on 15 December 2011 the Council agreed to the principle of providing a loan facility to Registered Social Landlords (RSLs) in the Borders to support the delivery of the Council's Strategic Housing Investment Programme (SHIP). It was agreed that Council Officers should engage with RSLs in terms of their specific requirements, explore the associated financial and legal issues, and report back to Council when that work was complete. Officers have also been in discussion with counterparts at City of Edinburgh Council who were awaiting the outcome of a request for consent of Scottish Ministers to on-lend to RSLs. It is understood that this consent has now been granted.

3.2 In addition, Annex D of the Council's Treasury Investment Strategy sets out permitted investments and included within this is the ability to lend to third parties, up to a cumulative maximum of £30m. The Strategy states that each loan requires Member approval and that each application is supported by the service rationale behind the loan and the likelihood of partial or full default. The full rationale behind on-lending in general was outlined in the Council paper of 15 December 2011 and this report outlines the detail of the proposed loan facilities.

3.3 The Council intends to finance these loan facilities via external borrowing from the Public Works Loans Board (PWLB). Normally, the Council only has authority to borrow in the medium to long term for capital expenditure purposes. In order to borrow to finance the proposed loan facilities the Council will be required to seek consent from the Scottish Government (SG) to treat these facilities as part of its Capital Financing Requirement.

3.4 The financial limits linked to the Capital Financing Requirement for the Council are part of the approved Prudential Indicators under the Treasury Management Strategy. The proposals for the loan facilities were initially incorporated into the 2012/13 Treasury Management Strategy approved in February 2012, and are included in the 2013/14 Treasury Management Strategy that will be presented to Council for approval on the 7 February 2013.

3.5 RSLs themselves cannot directly access funds from PWLB – although PWLB do have the power to lend direct, it is their policy not to do so because of the perceived risk. This risk relates to the fact that PWLB historically do not secure their loans due to the nature of their financing arrangements.

3.6 The constrained funding situation for RSLs in general is mainly driven by Scottish Government (SG) ending the previous Affordable Housing Investment Programme (AHIP) arrangements and introducing a new Innovation and Investment Fund, and subsequent Affordable Housing Supply Programme and associated arrangements. These are both predicated on the developing RSL having the financial capacity to be able to front fund all elements of the delivery of projects, with grant being provided upon completion. In addition new grant unit benchmarks have been introduced which are much lower than those previously available via previous AHIP arrangements.

3.7 Historically and generally speaking RSLs have been able to put favourable loan facilities in place through the normal financial market routes. However the significant change in the financial lending markets in the last few years has impacted on the RSLs ability to secure similar terms and conditions. When RSLs have approached their existing lenders awith respect to financing their SHIP related projects they have encountered significantly impaired terms. Specifically related to reduced loan duration, more stringent financial covenants being required and in some cases conditions being imposed on new lending which would force a wider renegotiation of the terms and conditions attached to previous borrowing. In response, RSLs are now seeking to secure access to new funds in ways which do not disturb existing loan agreements nor expose them to unnecessary re-financing risk due to the shorter term financing being offered on less advantageous terms.

3.8 The proposed lending will alleviate the problems currently faced by local RSLs by providing terms and conditions which are more manageable for the RSLs and facilitate delivery of the SHIP commitments.

4 PROPOSALS

4.1 Council officers have been in discussion for some time with staff from the local RSLs and proposals have now been received from BHA, EHA and SBHA. Waverley Housing has not brought forward any proposals which are in line with Council agreed SHIP priorities.

4.2 **BERWICKSHIRE HOUSING ASSOCIATION** has indicated that it would propose to use the proposed Council loan facility to assist projects at Acredale ph2 Eyemouth and Todlaw Duns. Together these projects would deliver an additional 55 new build housing units, and would require loan financing support of an estimated £5.0 million.

4.3 Subject to on-lending to the Association being agreed, it is proposed that Acredale ph2 Eyemouth will provide 32 homes for social rent. Todlaw ph3 Duns will provide 22 homes for social rent. The Association is proposing developing the latter project as one which will require no subsidy. However project viability is dependant on a number of financial variables with interest rates/re-financing risk being key factors.

4.4 Costs are being finalised and some of these homes may be leased to a subsidiary within the Association's group structure and let as affordable housing with mid market rents but the Todlaw project could not proceed without alternative funding being secured. The Acredale ph 2 project has grant allocated to assist it's delivery for anticipated completion by 31 March 2015.

4.5 **SCOTTISH BORDERS HOUSING ASSOCIATION** has indicated that it proposes to use Council loan facility to deliver 44 new build homes for social rent as one element of the Stonefield Estate regeneration in Hawick. It proposes to use the Council loan facility to support the 3 phases as follows:–

Ph1 10 homes £0.642million

Ph2 24 homes £1.086 million
Ph3 10 homes £0.510 million

4.6 Phase 1 has grant allocated to assist delivery by 31 March 2015. Phase 2 and 3 are pipeline projects within SHIP, and subject to grant and borrowing being secured, both could potentially complete by 31 March 2017.

4.7 The Association also proposes to use an estimated £0.260 million of Council loan facility to fund the redevelopment of 10 homes on the site of the former Deanfield sheltered housing in Hawick. This again could complete by 31 March 2017 subject to grant and borrowing being secured.

4.8 SBHA estimate that in total these projects would require Council loan facility support of £3.0 million. Although these SBHA projects are not dependant on the Council loan facility support, if this were not available, SBHA would need time to re-evaluate development commitments according to lending market conditions prevalent at that time and this may delay delivery of the projects.

4.8 **EILDON HOUSING ASSOCIATION** has indicated that it proposes to use Council loan facility to deliver 64 new build homes at the following locations:–

Newcastleton 8 homes £0.415 million

Stichill 8 homes £0.417 million

Dunwhinny Lodge Peebles 16 homes £1.481 million

Croft Road Lauder 12 homes £1.250 million

Easter Langlee Ph1 20 homes £1.690 million

4.9 These projects will provide 55 homes for social rent, plus 9 for mid market rent. Together these projects would require an estimated £5.316 million external market borrowing; however, the Association has indicated that it could reduce this as an Council loan facility requirement to £5.0 million. EHA is not dependant on Council loan facility to deliver the above projects, but the changing financial lending market means that utilising the facility would provide considerably less risk for the developments in terms of re-financing risk and increased certainty due to having the necessary funding in place with obvious advantages for project programming and delivery by 31 March 2015.

4.10 In summary the provision of a Council loan facility to these RSLs will enable the development of affordable housing, within SHIP agreed timeframes timescales that is not compromised by the impact of significantly more restrictive financing conditions. The inability to provide these facilities will have the potential to limit the scale and number of affordable housing projects.

4.11 If the Council supports the proposals for creating RSL loan facilities to support these projects then there will be a series of steps required to finalise arrangements, including:-

Legal:

(a) The powers under which the Council could assist by providing loan finance secured on the assets held by RSLs are detailed in the Housing (Scotland) Act 2001 (section 92) and require consent of Scottish Ministers. Informal discussions with Scottish Government have indicated that the Council will have to make an application for their consent to borrow to fund the loan facility and would be considered positively, as long as it were supported by a robust business case and justification for the non-use of traditional RSL borrowing sources.

(b) The form of standard security offered by the RSLs is anticipated to be in the form of property and / or land. The Chief Financial Officer has developed proposed terms and conditions to be used in conjunction with on-lending and these will need to be discussed and agreed individual arrangements with the RSLs. These are set out in Appendix 1. Some flexibility around the financial covenants and the margin proposed is requested to facilitate these negotiations.

(c) Financial: Terms and conditions for the on-lending (e.g. period of loan, rate of interest) plus an administrative/risk related margin (proposed to be a minimum of 0.5% but may be higher subject to the risk associated with the financial covenants) will need to be negotiated.

(d) Due diligence will require to be applied to individual RSL accounts to establish confidence in their ability to repay their respective loan

5 IMPLICATIONS

5.1 Financial

(a) The proposed outline terms and conditions are set out in Appendix 1.

(b) It is proposed that in the event that an RSL requires the Council to amend the financial covenants to a lower mutually agreed level, this will result in an increased risk and this will be compensated for by an increase in the margin applied to the PWLB rate.

(c) It is proposed that the Chief Financial Officer and the Head of Legal and Democratic Services are delegated authority to negotiate the finalised terms and conditions, and the ultimate loan facility agreement with the individual RSLs.

(d) The key constraint to delivery of the project will be the securing of the Scottish Ministerial consent to borrow to fund the loan facility.

(e) There should be no net revenue impact for the Council as the intention is to ensure that all related costs of the facility e.g. interest and PWLB arrangement fees will be covered by the payments from the RSL. It is also assumed that the consent from Scottish Ministers will allow the deferral of the statutory loan repayment charges to revenue until the repayment of capital from the RSL in accordance with the agreed repayment schedule.

(f) The indicative drawdown schedule for the loan facilities is as follows and will be included in the Treasury Strategy indicator estimates:

£m	***2013/14***	***2014/15***	***2015/16***	***2016/17***
BHA	5.0			
SBHA	0.642	1.086	0.510	0.260
EHA	5.0			
Total	**10.642**	**1.086**	**0.510**	**0.260**

There is no direct impact on the Council's ability to borrow to fund the capital programme or where 'Consent To Borrow' has already been approved by Scottish Government.

5.2 **Risk & Mitigations**

(a) Scottish Ministers may opt to refuse to consent to the proposed on-lending by the Council. This would compromise the Council's 'Ambitious for The Borders', and Single Outcome Agreement, both have a target of 100 affordable housing units to be delivered each year. The new Local Housing Strategy 2012-17 has an annual target of 103 affordable houses. Proposals in this report will contribute to meeting these targets.

(b) From the Council's perspective, the major risk is clearly associated with the loan arrangements and the risk of individual RSLs not repaying all or part of their loan.

Measures to mitigate the risk include:-

i. Standard security being taken over individual RSL assets to the value of the loan, with the Council having the sole interest in the assets
ii. Due diligence on individual RSL accounts by both the Council and independent third party
iii. Regular monitoring and dialogue with individual RSLs

5.3 **Equalities**

There are no equality issues directly related to this report.

5.4 **Acting Sustainably**

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

5.5 **Carbon Management**

There are no effects on carbon emissions associated with this report.

5.6 **Rural Proofing**

It is considered that this proposal will have a positive affect by assisting in increasing the supply of affordable housing in a number of Borders settlements. Duns and Lauder are classed as being in an "accessible rural" area as per Scottish Government's land classification methodology, whilst Stichill and Newcastleton are classed as being "remote rural".

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

No changes to the Scheme of Administration or 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 been consulted and comments are incorporated in the report.

6.2 The Council's Corporate Management Team considered this report on 5th December 2012.

Approved by

Chief Financial Officer **Signature ....**

Director of Social Work **Signature ....**

Author

Gerry Begg	Housing Strategy Manager 01835 825169
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Background Papers: None
Previous Minute Reference: Scottish Borders Council, 15 December 2012

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

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

APPENDIX 1

PROPOSED DRAFT TERMS AND CONDITIONS
LENDING TO R.S.L.S

Borrower	[NAME OF REGISTERED SOCIAL LANDLORD]
Lender	Scottish Borders Council ("SBC" or the "Council")
Facility	Fixed Term Secured Loan Facility with principal repayable in full at end of the individual loan tranche term
Facility Amount	Up to the maximum facility agreed by Scottish Borders Council.
Purpose	To facilitate the provision of [XX] additional affordable housing units in the Scottish Borders.
Facility Term	Total facility Term: 1 -15 years if Fixed Rate or 1 -10 years if Variable. However individual tranches of drawdown subject to: Fixed Rate Loan - Minimum term 1 year Maximum term 15 years Variable Rate Loan – Minimum term 1 year Maximum term 10 year *(Restriction on Variable term linked to PWLB terms)*
Drawdown	Single or multiple tranches. However there will be a fixed term for each tranche and each tranche would then have an individual interest rate based on the PWLB rate prevailing that this time. The Lender will require at least 5 working days notice prior to final drawdown of the loan or each individual loan tranche, and must keep the Lender updated on proposed changes to the agreed programme of drawdowns (see Conditions Precedent) as material changes in the profile will affect the Council's prudential indicators and restrict the on-lending capacity.

Interest Basis	**<u>Fixed Rate</u>** PWLB fixed rate for the appropriate term of the loan. This will be based on PWLB fixed rates as published at the time that the loan is requested for drawdown. (note this varies twice a day) This will be fixed at the rate agreed between PWLB and the Council when the loan is agreed between these two parties. Interest will be payable half yearly, with the first payment due on the anniversary of the loan (or individual tranche) drawdown. (need to specify this more clearly) **<u>Variable Rate</u>** PWLB variable rate appropriate to the interest payment profile – i.e. monthly, quarterly or half-yearly. The rates will be derived directly from the PWLB. Following drawdown the interest payment profile will be fixed and cannot be varied.
Margin	The Lender will add a margin, typically of 0.5% to the applicable PWLB interest rate. *(N.B. changes to negotiated covenants may result in increase margin to reflect increased risk)*
Security	Standard Security will be required for all sums due or becoming due. Valuations for the security will be on the basis of market valuation (subject to tenancies) Any changes to the security arrangements will be subject to agreement with the Lender.
Repayment	Maturity basis – i.e. principal repaid in full at end of facility term.
Prepayment / Indemnities	Prepayment will be subject to the same early re-payment conditions that PWLB will apply. In the event of early repayment the same amount cannot be re-borrowed under the facility. Both variable and fixed interest rate loans will have costs associated with repayment and information on these are available at www.dmo.gov.uk

Fees	
Arrangement Fee	Purely transfer of cost from PWLB to ensure cost neutral to Council Fixed Rate Loans - 35p for every £1,000/part of £1,000 Variable Rate Loans – 45p for every £1,000/part of £1,000
Non Utilisation Fee	Nil
Commitment Fee	Nil
Security Fee	An costs associated with registering any Standard Security will be born by the Borrower.
Monitoring Fee	Nil
Valuation Fee	Where the Lender already has Standard Security over existing properties these will be revalued and the Lender to select the valuer. A valuation will also be required on any additional Standard Security required to cover the value of the amount borrowed. Any costs associated with this valuation process will be the liability of the Borrower.
Legal Fee	The Lender and Borrower will be responsible for their own legal fees.
Financial Covenants	a) Gearing – up to 70% (need to define this for members) b) Interest Cover Ratio – Not less than 0.9 : 1 in any one financial year and a minimum of 1.1 : 1 in aggregate in any three year period (ditto) c) Asset Cover – a minimum cover ratio of 120% using MV-T (market value subject to tenancies) valuation basis; or 100% Cash Cover (ditto) (N.B. *Should these covenants be required to be negotiated then this will increase the premium over the PWLB rate charged to reflect increased risk)*
Information requirements	Quarterly management accounts to be provided within 45 days of each period end. Draft unaudited accounts to be provided within 90 days of the Borrower's year end. Audited accounts to be provided within 180 days of the Borrower's year end.

Events of Default	To be standard for this type of loan agreement and to include (i) any failure to make timely payment of any amount due under the loan agreement, (ii) the Borrower becoming insolvent, (iii) any failure to maintain the financial covenant, (iv) any representation being materially untrue when made or repeated and (v) anything which, in the Lender's reasonable opinion, constitutes a material adverse change in the Borrower's financial condition
Conditions Precedent	(i) Consent to Borrow to on lend to Borrower received from Scottish Government (ii) Compliance with Financial Covenants (iii) Security over assets to value of loan in place (iv) The Borrower provides the Lender with a proposed programme of loan tranche drawdowns (where there is more than one tranche) for the Lender to agree and annually (each October) agrees with the Lender of any amendments to this drawdown programme until all tranches have been lent.
Documentation	To be agreed between Borrower and Lender
Assignments/Transfers	Neither the Lender nor the Borrower may assign or transfer its rights under the loan agreement without first obtaining the prior written consent of the other party (not to be unreasonably withheld or delayed).
Jurisdiction	Scottish Law

ITEM – URGENT - 12

ARRANGEMENTS FOR BY-ELECTION FOR LEADERDALE AND MELROSE WARD

Report by Chief Executive

SCOTTISH BORDERS COUNCIL

7 FEBRUARY 2012

1 PURPOSE AND SUMMARY

1.1 **This report seeks approval to set the date and establish the arrangements for the by-election to be held in the Leaderdale and Melrose Ward, following the resignation of Councillor Watson.**

1.2 In terms of the Local Government (Scotland) Act 1973, as amended, Councillor Watson's resignation takes effect on 22 February 2013. The Chief Executive is the designated Returning Officer for the by-election. It is proposed that the by-election for the Leaderdale and Melrose Ward takes place on Thursday 2 May 2013. The minimum time required to prepare for a by-election is 35 working days. There will be 9 polling places/stations in the Ward: at Blainslie, Darnick, Earlston, Gattonside, Lauder, Melrose, Newstead, Oxton and Tweedbank. It is proposed that the count will take place at Council Headquarters on Friday 3 May 2013, starting at 10.00 a.m. It is anticipated that the count will be by electronic means.

1.3 In terms of staffing of the by-election, it is proposed - for the polling places/ stations - to approach firstly those staff who worked at these venues in May 2012. The Democratic Services team will deal with the election preparations and management of processes, with the Head of Corporate Governance, Clerk to the Council and Democratic Services Team Leader acting as Depute Returning Officers. There are a number of costs associated with the by-election, such as staffing; printing of poll cards, ballot papers and postal packs; venue hire and transport of equipment; electronic equipment hire; and other ancillary expenses. Costs are currently being assessed and will be given verbally at the meeting.

2 STATUS OF REPORT

2.1 Councillor Watson's letter of resignation was received on Friday 1 February 2013. This report is issued as a late paper for the special Council meeting seeking approval for the date of the by-election and also to give the Returning Officer adequate time to make the necessary arrangements.

3 RECOMMENDATIONS

3.1 **I recommend that the Council agrees the following arrangements for the by-election for the Leaderdale and Melrose Ward:-**

(a) Polling Day be fixed as Thursday, 2 May 2013; and,

(b) the costs associated with staffing, printing, supplies, venue hire, electronic equipment hire, and other expenses incurred by the Returning Officer, be met from funds identified as part of the Budget Monitoring process.

4 BACKGR0UND

4.1 Councillor Nicholas Watson, member for Leaderdale and Melrose Ward, is moving from the Borders and submitted a letter of resignation which was received on 1 February 2013. In terms of the Local Government (Scotland) Act 1973, as amended, this resignation takes effect three weeks from the delivery of that notice. In effect, his resignation takes effect on 22 February 2013.

5 BY-ELECTION ARRANGEMENTS

5.1 The Chief Executive is the designated Returning Officer for the by-election. It is proposed that the by-election for the Leaderdale and Melrose Ward takes place on Thursday 2 May 2013. The minimum time required to prepare for a by-election is 35 working days. Good Friday and Easter Monday (29 March and 1 April respectively) are treated as 'dies non', therefore the earliest date for the by-election would be Thursday 18 April 2013. However, this is only the week after the main Easter holidays which could cause difficulties for preparations and postal votes in terms of staff and members of the public being away on holiday in the lead up to polling day.

5.2 There will be 9 polling places/stations in the Ward: at Blainslie, Darnick, Earlston, Gattonside, Lauder, Melrose, Newstead, Oxton and Tweedbank. It is proposed that the count will take place at Council Headquarters on Friday 3 May 2013, starting at 10.00 a.m. This will allow time on the Thursday night at Council Headquarters to receive the ballot boxes from the polling places, process any postal votes handed in at polling places during the day on Thursday, and check the ballot paper accounts. Candidates and agents will be invited to be present on the Thursday evening. It is anticipated that the count on the Friday will be by electronic means.

5.3 The main dates, if the by-election takes place on 2 May 2013, would be as follows:

- Publication of notice of election – not earlier than Tuesday 12 March and not later than Thursday 21 March 2013
- Deadline for the delivery of nomination papers – 4pm on Thursday 28 March 2013
- Deadline for withdrawals of nomination – 4pm on Thursday 28 March 2013
- Publication of notice of poll – as soon as practicable after 4pm on Thursday 28 March 2013
- Deadline for notification of appointment of polling and counting agents – Thursday 25 April 2013
- **Polling Day – Thursday 2 May 2013 (7.00 a.m. to 10.00 p.m.)**
- Last day to submit election spending returns – Friday 7 June 2013 (if result is declared on Friday 3 May 2013)

5.4 In terms of staffing of the by-election, it is proposed - for the polling places/ stations - to approach firstly those staff who worked at these venues in May 2012. The Democratic Services team will deal with the election preparations and management of processes, with the Head of Corporate Governance, Clerk to the Council and Democratic Services Team Leader acting as Depute Returning Officers. There are a number of costs associated with the by-election, such as staffing; printing of poll cards, ballot papers and postal packs; venue hire and transport of equipment; electronic equipment hire; and other ancillary expenses.

6 IMPLICATIONS

6.1 **Financial**
In accordance with Council policy, no provision has been made in the current or next year's Revenue budget to meet the cost of a by-election. It will be necessary to cover the costs by virement in due course from funds identified as part of the budget monitoring process. Costs are currently being assessed and will be given verbally at the meeting.

6.2 **Risk and Mitigations**
Under legislation, the Council must make arrangements to hold a by-election to fill the post vacated by Councillor Watson. A risk assessment is carried out as part of the normal election preparation process.

6.3 **Equalities**
No adverse equality implications are anticipated as a result of the by-election process.

6.4 **Acting Sustainably**
There are no economic, social or environmental effects of doing or not doing what is proposed.

6.5 **Carbon Management**
There should be little impact on the Council's carbon emissions from holding the by-election.

6.6 **Rural Proofing**
A Rural proofing check is not required for the by-election.

6.7 **Changes to Scheme of Administration or Scheme of Delegation**
No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in the report.

7 CONSULTATION

7.1 The Chief Financial Officer, the Head of Corporate Governance, the Head of Audit and Risk, the Clerk to the Council, and the Electoral Registration Officer have been consulted and their comments have been included in the report.

7.2 The Council's Corporate Management Team and the Corporate Communications Unit have also been advised of the contents of the report.

Approved by

Chief Executive **Signature ....**

Author(s)

Name	Designation and Contact Number
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Background Papers: N/A
Previous Minute Reference: N/A

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

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