Borough Council of
King's Lynn &
West Norfolk

CABINET

Agenda

TUESDAY, 3 JULY 2012
at 5.30pm

in the

Committee Suite
King's Court
Chapel Street
King's Lynn

IN
TRAN
communication for all

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Borough Council of
King's Lynn &
West Norfolk

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CABINET AGENDA

DATE: CABINET – TUESDAY, 3 JULY 2012

VENUE: COMMITTEE SUITE, KING'S COURT, CHAPEL STREET, KING'S LYNN

TIME: 5.30 pm

1. MINUTES

To approve the Minutes of the Meeting held on 19 June 2012.

2. APOLOGIES

To receive apologies for absence.

3. URGENT BUSINESS

To consider any business, which by reason of special circumstances, the Chairman proposes to accept, under Section 100(b)(4)(b) of the Local Government Act 1972.

4. DECLARATION OF INTEREST

Please indicate whether the interest is a personal one only or one which is also prejudicial. A declaration of an interest should indicate the nature of the interest and the agenda item to which it relates. In the case of a personal interest, the member may speak and vote on the matter. If a prejudicial interest is declared, the member should withdraw from the room whilst the matter is discussed.

These declarations apply to all those members present, whether the member is part of the meeting, attending to speak as a local member on an item or simply observing the meeting from the public seating area.

5. CHAIRMAN'S CORRESPONDENCE

To receive any Chairman's correspondence.

6. MEMBERS PRESENT PURSUANT TO STANDING ORDER 34

To note the names of any Councillors who wish to address the meeting under Standing Order 34.

7. CALLED IN MATTERS

To report on any Cabinet decisions called in.

8. FORWARD DECISIONS LIST

A copy of the Forward Decisions List is attached (Page 6)

9. MATTERS REFERRED TO CABINET FROM OTHER COUNCIL BODIES

To receive any comments and recommendations from other Council bodies some of which meet after the dispatch of this agenda. Copies of any comments made will be circulated as soon as they are available.

- Resources and Performance Panel - Audit Committee – 26 June 2012
- Regeneration, Community and Environment Panel 27 June 2012

10. REPORTS

1 **Annual Treasury Report 2011/2012 (page 8)**

This Annual Treasury Report looks backwards at 2011/2012 and covers:

- the Council's overall borrowing need
- the Council's treasury position/performance;
- the strategy for 2011/2012;
- the economy in 2011/2012;
- borrowing rates in 2011/2012;
- the borrowing outturn for 2011/2012;
- compliance with treasury limits and Prudential Indicators;
- investment rates for 2011/2012;
- investment outturn for 2011/2012;

- debt rescheduling;

2 Lynnsport Fitness/College Of West Anglia (page 27)

The report considers the use and income generated from fitness facilities at Lynnsport and the partnership working with the College of West Anglia (COWA) for leisure courses. The report proposes that the Lynnsport facilities be reorganised to divide the current seven lane Bowls Hall into a Fitness Suite of 438m^2 while retaining a five lane Bowls Hall.

EXCLUSION OF THE PRESS AND PUBLIC

To consider passing the following resolution:

"That under Section 100(A)(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act."

3 Housing And Council Tax Benefit: Risk Based Verification of New Claims (Page 33)

4 Hunstanton – Proposed Land Disposal – Up-date report (Page 41)

5 Business Rates – Application For Discretionary Relief (Page 50)

To: Members of the Cabinet
Councillors N J Daubney (Chairman), A Beales, Lord Howard, A Lawrence, B Long, Mrs E A Nockolds, D Pope and Mrs V Spikings.

Cabinet Scrutiny Committee

For further information, please contact:
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Democratic Services Manager,
Borough Council of King's Lynn & West Norfolk
King's Court, Chapel Street,
King's Lynn PE30 1EX
Telephone: (01553) 616327 Email: sam.winter@west-norfolk.gov.uk

FORWARD DECISIONS LIST

	Officer	Portfolio Responsible

<u>3 July 2012</u>

Lynnsport and COWA	Exec Dir Leisure and Public Space	Assets
Risk Based Verification Policy for Benefit claims	Deputy Chief Executive	Leader
Annual Treasury Report 2011/12	Deputy Chief Executive	Leader
Hunstanton Land Disposal	Deputy Chief Executive	Regeneration
Request for Business Rate Relief	Deputy Chief Executive	Dep Leader

<u>31 July 2012</u>

Townscape Heritage Initiative	Exec Dir Regen and Planning	Regeneration / Development
Enterprise Centre	Exec Dir Regen and Planning	Regeneration
Bid to host CNC Building Control	Exec Dir Regen and Planning	Development

<u>4 September 2012</u>

Payroll Tender Process	Exec Dir Central Services	Leader

<u>18 September 2012 (Accounts)</u>

Annual Governance Statement	Exec Dir Central Services	Leader
Report of the Mart Task Group	Exec Dir Leisure and Public Space	Health and Wellbeing

<u>2 October 2012</u>

Local Authority Leisure Trust – Project Plan and Follow Up report	Chief Executive	Leader/ Assets

<u>30 October 2012</u>

Payroll Tender Outcome	Exec Dir Central Services	Leader

<u>4 December 2012</u>

<u>Forthcoming Items, as yet unprogrammed</u>

Major Housing Development – King's Lynn	Exec Dir Regen and Planning	Regeneration
Local Council Tax Support Scheme	Deputy Chief Executive	Leader

Hunstanton – Proposed Land Disposal	Dep Chief Executive	Regeneration
Planning Fees	Exec Dir Regeneration & Development	Development
Revised KLATS & KL Car Parking Strategy	Exec Dir Regeneration & Development	Regeneration / Health & Wellbeing
Community Cohesion Strategy	Chief Executive	Community
Town Centre Plan	Exec Dir Regeneration & Development	Regeneration
Care and Repair Framework Agreement	Exec Dir Environmental Health & Housing	Deputy Leader
Licensing of Caravan Sites	Exec Dir Environmental Health & Housing	Deputy Leader
Revised Procurement Strategy	Deputy Chief Executive	Leader

REPORT TO CABINET

<table>
<tr><td colspan="2">Open</td><td colspan="3" rowspan="2">Would any decisions proposed :

(a) Be entirely within Cabinet’s powers to decide YES

(b) Need to be recommendations to Council NO

(c) Be partly for recommendations to Council NO
and partly within Cabinets powers –</td></tr>
<tr><td colspan="2">Any especially affected Wards

None</td></tr>
<tr><td colspan="2" rowspan="2">Lead Member: Nick Daubney
E-mail:</td><td colspan="3">Other Cabinet Members consulted: None</td></tr>
<tr><td colspan="3">Other Members consulted: None</td></tr>
<tr><td colspan="2">Lead Officer: Lorraine Gore
E-mail: lorraine.gore@west-norfolk.gov.uk
Direct Dial: 01553 616432</td><td colspan="3">Other Officers consulted: David Thomason, Management Team</td></tr>
<tr><td>Financial Implications
NO</td><td>Policy/Personnel Implications
NO</td><td>Statutory Implications (incl S.17) YES</td><td>Equal Impact Assessment req’d
NO</td><td>Risk Management Implications
NO</td></tr>
</table>

Date of meeting: 3 July 2012

1 ANNUAL TREASURY REPORT 2011/2012

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by Council of an annual strategy report (including the annual investment strategy report) for the year ahead, a mid year review report and an annual review report of the previous year.
    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
    - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named individual which is the Deputy Chief Executive, Executive Director for Finance and Resources.

This Annual Treasury Report looks backwards at 2011/2012 and covers:

- the Council's overall borrowing need
- the Council's treasury position/performance;
- the strategy for 2011/2012;
- the economy in 2011/2012;
- borrowing rates in 2011/2012;
- the borrowing outturn for 2011/2012;
- compliance with treasury limits and Prudential Indicators;
- investment rates for 2011/2012;
- investment outturn for 2011/2012;
- debt rescheduling;

During the year the Council maintained a cautious approach to investment and management of debt. Investments returned a percentage of between 0.81% and 1.95% exceeding the 7 day LIBID benchmark rate of 0.48%. Interest on debt averaged 2.54% in 2011/2012.

Recommendations

Cabinet is asked to note the report.

Reason for the Decision

The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. Introduction and Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's Code of Practice on Treasury Management requires that Council consider an Annual Treasury Report looking back at the previous years performance.

1.2 This Annual Treasury Report covers:

a. the Council's overall borrowing need
b. the Council's treasury position/performance;
c. the strategy for 2011/2012;
d. the economy in 2011/2012;
e. borrowing rates in 2011/2012;
f. the borrowing outturn for 2011/2012;
g. compliance with treasury limits and Prudential Indicators;
h. investment rates 2011/2012;
i. investment outturn for 2011/2012;
j. debt rescheduling;

2. The Council's Overall Borrowing Need

2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2011/2012 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

2.3 **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.4 The Council's 2011/2012 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/2012 on 8th March 2011.

2.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes leasing schemes on the balance sheet, which increase the Council's borrowing need, the CFR.

CFR	31 March 2011 Actual £000's	31 March 2012 Actual £000's
Opening Balance	15,025	14,679
Add unfinanced capital expenditure	71	(130)
Less MRP	419	416
Less finance lease repayments	2	2
Closing CFR	**14,679**	**14,135**

2.6 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

2.7 **Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/2012 plus the expected changes to the CFR over 2012/13 and 2013/14. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/2012. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2011 Actual £million	31 March 2012 Actual £million
Borrowing	15.42	17.62
Investments	26.57	25.73
Net Position	**(11.15)**	**(8.11)**
Closing CFR	**14.68**	**14.14**

2.8 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/2012 the Council has maintained gross borrowing within its authorised limit.

2.9 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

2.10 Actual financing costs as a proportion of net revenue stream - 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 (Council Tax and Government Grant).

	2011/2012
Authorised limit	£35m
Maximum gross borrowing position	£32m
Operational boundary	£32m
Average gross borrowing position	£13m
Financing costs as a proportion of net revenue stream	3.59%

3. Treasury Position/Performance as at 31 March 2012

3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2011/2012 the Council's treasury position was as detailed in the table below:

	31st March 2011 Principal £ million	Total £ million	Rate/ Return %	31st March 2012 Principal £ million	Total £ million	Rate/ Return %
Borrowing:						
Fixed Rate Funding:						
- PWLB	1.70		2.92	1.50		2.92
- Market	10.0	11.70	3.81	10.0	11.50	3.81
Variable Rate Funding:						
- PWLB	0.00			0.00		
- Market	3.72	3.72	0.48	6.12	6.12	0.37
Total Debt		**15.42**	**2.92**		**17.62**	**2.54**
*Investments:						
- In-House	16.30		1.57	25.73		1.43
- With Manager	10.27		0.94	0.00		0.00
Total Investments		**26.57**	**1.33**		**25.73**	**1.43**
Net Position		**(11.15)**			**(8.11)**	

*see section 10.13 for explanation of movement, of investment balances

3.2 The maturity structure of the debt portfolio was as follows:

	31 March 2011 Actual £million	31 March 2012 Actual £million
Under 12 months (cash flow)	3.7	6.1
12 months and within 24 months	0.0	0.0
24 months and within 5 years	0.0	0.0
5 years and within 10 years	1.7	1.5
10 years and above	10.0	10.0

3.3 The maturity structure of the investment portfolio was as follows:

	31 March 2011 Actual £million	31 March 2012 Actual £million
Longer than 1 year	0.0	0.0
Under 1 year	15.5	25.7
Temporary Cash Flow	0.8	0.0
Fund Managers (all investments less than 1 year) – refer to section 10.5 to 10.7	10.3	0.0
Total:	**26.6**	**25.7**

3.4 As part of the Council strategy in 2011/2012, the Council would avoid locking into longer term deals while investment rates were down at historically low levels unless exceptionally attractive rates were available which would make longer term deals worthwhile. This was the case and no longer term deals were made.

4. The Strategy for 2011/2012

4.1 Sector, the Council's treasury advisors, recommended a treasury strategy for 2011/2012, based on their view that the expectation for interest rates anticipated low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The actual movement in gilt yields meant that PWLB rates fell sharply during the year and to historically very low levels. This was caused by a flight to quality into UK gilts from EU sovereign debt and from shares as investors became concerned about the potential for a Lehmans type crisis of financial markets if the Greek debt crisis were to develop into a default and exit from the Euro.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and reduce counterparty risk.

4.3 The actual movement in interest rates broadly followed the expectations.

5. The Economy 2011/2012

5.1 The original expectation for 2011/12 was that Bank Rate would start gently rising from quarter 4 2011. However, economic growth (GDP) in the UK was disappointing during the year due to the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The EU sovereign debt crisis grew in intensity during the year until February when a refinancing package was eventually agreed for Greece. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI (consumer price index) inflation peaked in September at 5.2%, finishing at 3.5% in March, with further falls expected to below 2% over the next two years. Deposit rates picked up in the second half of the year as competition for cash increased among banks.

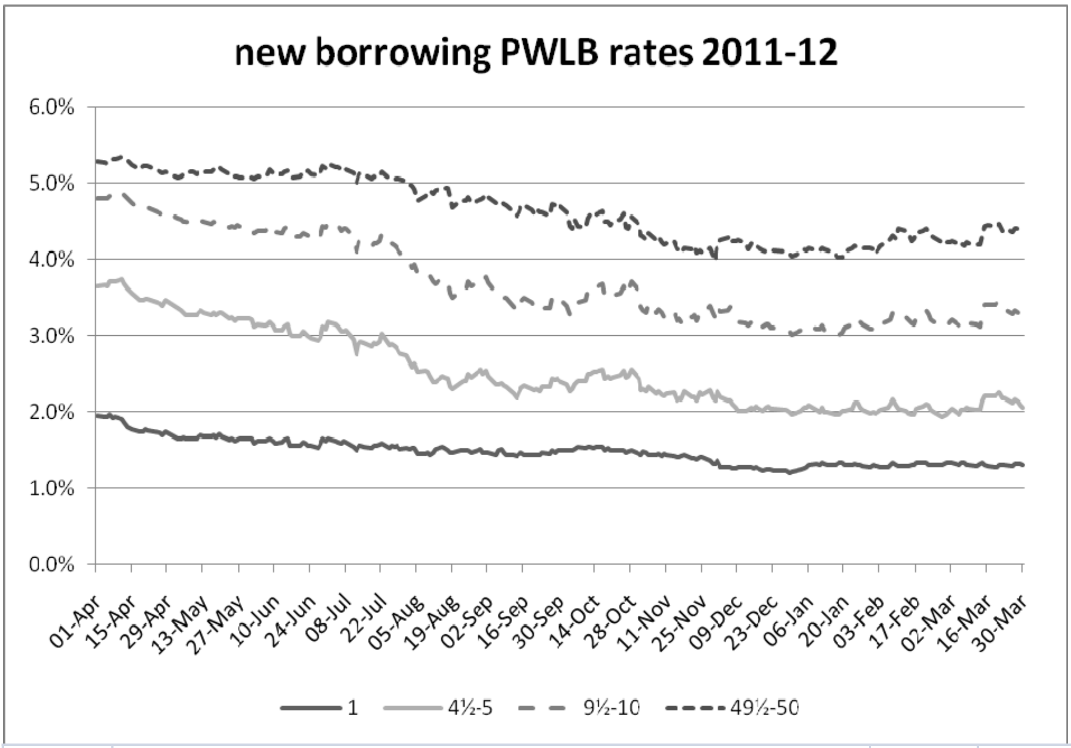
5.2 Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

5.3 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

5.4 The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.

6 Borrowing Rates in 2011/2012 – (Rates based on PWLB maturity profiles)

6.1 **PWLB borrowing rates -** the graph and table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.



PWLB BORROWING RATES 2011/12 for 1 to 50 years

	1	1.5-2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
01/04/2011	1.950%	2.420%	2.870%	3.280%	3.650%	4.800%	5.360%	5.280%	1.570%
31/03/2012	1.290%	1.420%	1.590%	1.810%	2.050%	3.200%	4.310%	4.350%	1.560%
HIGH	1.970%	2.470%	2.930%	3.350%	3.730%	4.890%	5.430%	5.340%	1.590%
LOW	1.190%	1.320%	1.500%	1.710%	1.940%	3.010%	3.940%	3.980%	1.560%
Average	1.466%	1.693%	1.958%	2.243%	2.533%	3.702%	4.610%	4.635%	1.561%
Spread	0.780%	1.150%	1.430%	1.640%	1.790%	1.880%	1.490%	1.360%	0.030%
High date	06/04/2011	06/04/2011	06/04/2011	06/04/2011	11/04/2011	11/04/2011	11/04/2011	11/04/2011	05/04/2011
Low date	29/12/2011	30/12/2011	30/12/2011	27/02/2012	27/02/2012	30/12/2011	18/01/2012	30/11/2011	15/04/2011

7 Borrowing Outturn for 2011/2012

7.1 The Council Strategy was based on the following views:

- *The Council will only borrow if it is financially advantageous to do so.*
- *The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years*

- *Temporary borrowing from the money markets or other local authorities*
- *PWLB (Public Works Loan Board) variable rate loans for up to 10 years*
- *Short dated borrowing from non PWLB below sources*
- *Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.*
- *PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt*

7.2 *In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:*

- *if it were 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 were 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.*

7.3 Borrowing as at 31st March 2012:

Start Date	End Date	Loan No	Value £	Institution	Rate	Term
11.06.07		3645	20,000	Kings Lynn Festival	0.00%	7 day notice
22.03.12	16.04.12	3768	4,600,000	Worcestershire CC	0.32%	Short Term
26.03.11	16.04.12	3769	1,500,000	Greater Manchester Pension Fund	0.52%	Short Term
Total Short Term			**6,120,000**			
22.03.07	21.03.77	5888	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term – fixed for initial 10 year period, and option to change every 5 years thereafter
12.04.07	11.04.77	5887	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term - fixed for initial 10 year period, and option to change every 5 years thereafter
15.09.09	14.09.19	495951	1,500,000	PWLB	2.92%	Long Term – fixed for 10 years
Total Long Term			**11,500,000**			
Total Borrowing			**17,620,000**			

The table at 3.1 shows average rate of debt as being 2.54%.

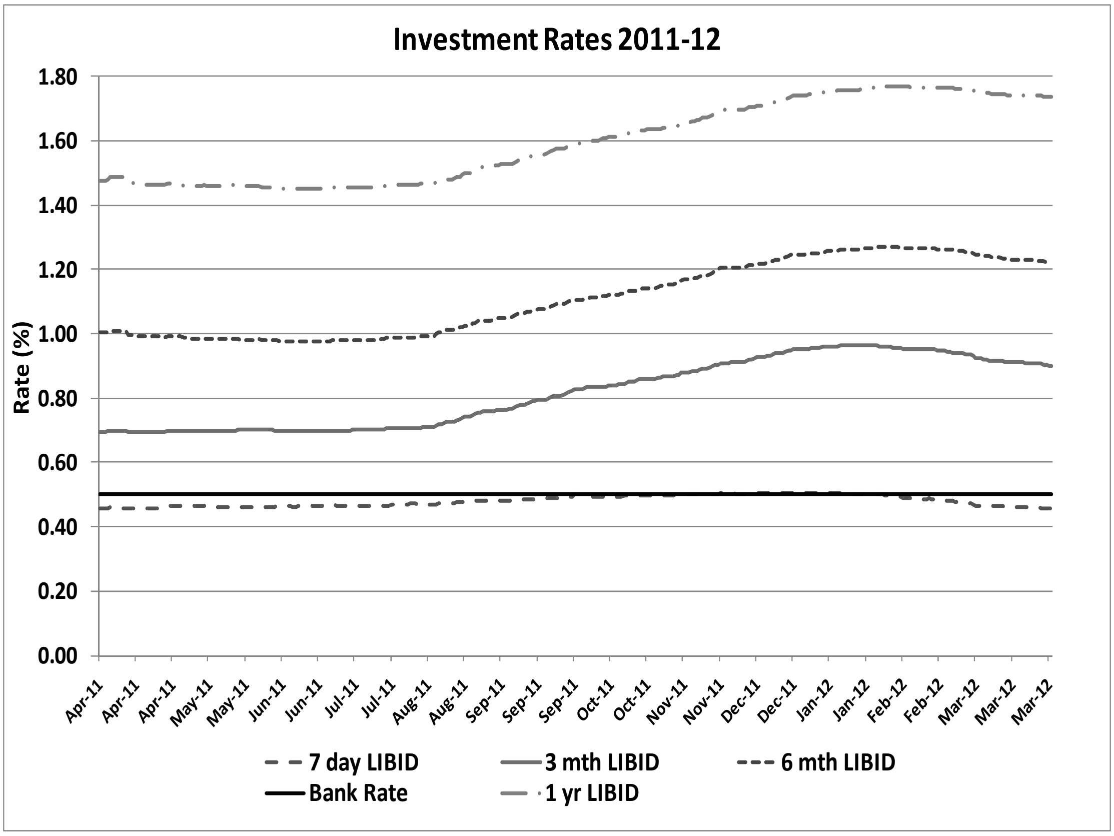
8. Compliance with Treasury Limits

8.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators (*is shown in appendix 1).*

9. Investment Rates in 2011/2012

9.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. The European Central Bank's actions to provide nearly €1 trillion of 1% 3 year finance to EU banks eased liquidity pressures in the EU and investment rates eased back somewhat in the quarter 1 of 2012. This action has also given EU banks time to strengthen their balance sheets and liquidity positions on a more permanent basis. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of the start of monetary tightening was gradually pushed further and further back during the year to the second half of 2013 at the earliest..

9.2 Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in a second rescue package for Greece in quarter 1 2012. Concerns extended to the potential fallout on the European banking industry if the crisis could have ended with Greece leaving the Euro and defaulting.



10. Investment Outturn for 2011/2012

10.1 **Internally Managed Investments** - The Council manages its investments in-house and invests with the institutions listed in the

Council's approved lending list. The Council invests for a range of periods, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. During the year, all investments were made in full compliance with this Council's treasury management policies and practices.

10.2 **Externally Managed Investments** – At the start of 2011/2012, the Council had investments managed externally by Investec. The fund management agreement between the Council and the Fund Managers defines the limits for maximum weighting in gilts/bonds and maximum duration of the fund. Counterparty criteria and exposure limits are also pre-defined therein. These would be reduced if needed to fund the current Capital Programme. The fund managers proactively manage the investments to provide an above benchmark performance.

10.3 **Investment Strategy** - The expected short-term investment strategy for in-house managed funds was:

10.4 *In-house funds: The Council's in-house managed funds are currently made up of both cash-flow derived and longer term investments. Investments will accordingly be made with reference to the core balance, cash flow requirements and the need to finance the capital programme. This means that both the outlook for short-term interest rates (i.e. rates for investments up to 12 months) and longer term interest rates (over one year) will be considered when making investments.*

10.5 *Externally managed funds: The Council has a Discretionary Fund Management Agreement with Investec Asset Management. The inception date of the agreement was 1 April 1998 and termination of the agreement by the Council can be made at any time by written notice. The value held by the fund managers as at 29 January 2011 was £13,745,382. Performance since year end 2009/2010 shows a gross rate of return of 0.88% and a net rate of 0.79% after deduction of management fees. The management fees for 2011/2012 are £21,880.*

10.6 *The Review of Treasury Management Arrangements report sets out recommendations for the Council to terminate its arrangement with Investec, and makes the following changes to the investment strategy listed briefly below. This will provide a saving of £21,880 in management fees and ensure that the investment portfolio is managed in house:*

- *The Council should maintain a diversification of at least 5 counterparties*
- *Money Market Funds to be opened and utilised, which are AAA rated with the lowest volatility rating. The funds offer higher security, instant access and diversification amongst a range of different asset classes and counterparties.*
- *The Council invests a greater amount with higher credit rated counterparties.*

- *The Council to consider widening their lending list, increasing the number of counterparties both in the UK and foreign market.*
- *The Council to introduce group limits to reduce the maximum exposure to one individual group, to minimise risk.*
- *The Council consider using alternative investment vehicles, i.e Multilateral Development Bank Bonds.*
- *Treasury Management Practices (TMP's) to be amended to incorporate these changes.*

10.7 *As stated in the Review of Treasury Management Arrangement report, it will be necessary to discuss with Investec the management fees payable for 2010/2011 on a phased withdrawal of funds basis, in order to prevent unnecessary fees on early withdrawal of investments. The termination of the management agreement should take place in its entirety in September 2011.*

10.8 *Bank Rate has been unchanged at 0.50% since March 2009. Bank rate is forecast to commence rising in quarter 4 of 2011 and then to rise steadily from thereon. There is downside risk to these forecasts if economic growth is weaker than expected. There is also a risk that the MPC could decide to start raising Bank Rate in quarter 3 of 2011 if it feels it needs to defend its credibility in containing inflation and the inflation expectations of the public.*

10.9 *The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this council.*

10.10 *For 2011/12, it is suggested by the Councils advisors to budget for an investment return of 0.70% on investments placed during the year and assumes that Bank Rate starts increasing from November 2011. There is downside risk to this forecast i.e. that the start of increases in Bank Rate is delayed even further if economic growth is weaker than expected. There is also upside risk if the MPC decides it needs to start increasing Bank Rate in Q3 2011 in order to maintain its credibility in containing inflationary pressures.*

10.11 *For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (over night to three months) in order to benefit from the compounding of interest.*

10.13 **Investments for 2011/2012 -** Detailed below is the result of the investment strategy undertaken by the Council.

	Investments as at 1 April 2011 (£millions)	Investments as at 31 March 2012 (£millions)	Rate of Return (net of fees) %	1 BENCHMARK RETURN %
Internally Managed	16.3	25.70	**1.43**	**0.48**
Externally Managed	10.27	0.00	**0.00**	**0.00**

Investments as at 31st March 2012:

Institution	Principal	Start Date	End Date	Rate %	Ratings
Newcastle City Council	1,500,000	09/05/2011	08/05/2012	1.70	AAA
Santander UK	2,400,000	10/02/2012	10/05/2012	1.40	A+
Natwest (Fixed)	3,000,000	12/05/2011	11/05/2012	1.52	A
Nationwide Building Society	2,600,000	09/03/2012	11/06/2012	1.00	A+
Nationwide Building Society	2,000,000	12/03/2012	15/06/2012	1.00	A+
Natwest (Fixed)	2,000,000	27/07/2011	26/07/2012	1.49	A
Bank of Scotland	2,000,000	24/11/2011	22/11/2012	2.37	A
Bank of Scotland	3,000,000	28/11/2011	26/11/2012	2.37	A
Newcastle City Council	3,900,000	20/06/2011	20/12/2012	1.55	AAA
Natwest (Call)	370,000	12/03/2012		0.90	A
Natwest (Call)	630,000	15/03/2012		0.90	A
Natwest (Call)	1,000,000	16/03/2012		0.90	A
Primerate Money Market Fund	1,300,000	15/03/2012		0.80	AA-
Total	**25,700,000**				

10.14 The benchmark rate is derived from the 7 day LIBID (London Interbank Bid Rate) rate. The Council exceeded this rate, as investments were tied in for longer periods to take advantage of higher interest returns while the bank rate remained at 0.50%.

10.15 In addition, the Council utilised business reserve accounts which were providing higher returns from those available on the markets, due to problems with the worlds' financial markets. The Council targeted investments with banks which met their minimum criteria counterparty limits. If changes in ratings occurred to banks where funds were deposited, this was noted on Monthly Monitoring reports and reviewed.

10.16 In addition the Council also ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.

10.17 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

10.18 In addition to this, a report was approved by Council on the 8th March 2011, approving the termination of the Fund Managers arrangement with the Council. This was part of the Accountancy Service Review to achieve annual savings of £22,400 on external fees. Higher rates of return could be achieved with in-house investments 2011/2012. The report also incorporated changes to the Councils investment strategy, which detailed a review of the Councils lending lists, so increased funds could be accommodated in-house.

10.19 Fund Managers investments would gradually be returned to the Council as they mature to prevent any early payment penalties in 2012. Therefore, as shown in table 10.13, in-house investments increased at the end of 2012 due to funds being returned from the Fund Manager.

11.0 Debt Rescheduling

11.1 The Authority did not reschedule any debt during the year.

12.0 Summary

12.1 In summary the Council:

- Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties, which were proven to be disadvantageous.

- A lending list review was undertaken to ensure security and liquidity were maintained, whilst increasing funds held in-house due to funds being returned from Fund Manager and higher rates of interest being achieved.

- Took advantage of higher business reserve account rates on short term investments, and tied in rates for fixed term investments to take advantage of higher interest rate returns (while bank rate remained at 0.50%).

- Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported on monthly monitoring reports if changes occurred to any banks where funds were deposited.

- In addition, the Council ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.

APPENDIX 1: PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2010/11	2011/2012
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	**£'000**	**£'000**
	Actual	**Actual**
Capital Expenditure	4,841	5,544
Ratio of financing costs to net revenue stream	2.42%	2.50%
Net borrowing requirement		
brought forward 1 April	20,900	15,420
carried forward 31 March	15,420	17,620
in year borrowing requirement	(5,480)	2,200
Net Investment		
brought forward 1 April	26,937	26,567
carried forward 31 March	26,567	25,731
in year investment	(370)	(836)

PRUDENTIAL INDICATOR	2010/11	2011/2012
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**
	Actual	**Final**
Authorised limit for external debt -		
Borrowing	35,000	35,000
Operational boundary for external debt -		
Borrowing	32,000	32,000
Actual External Debt	15,420	17,620
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	32,000	32,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	22,000	22,000
Upper limit for total principal sums invested for over 364 days		
(per maturity date)	No limit	No limit

Maturity structure of fixed rate borrowing during 2011/2012	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

REPORT TO CABINET

<table>
<tr><td>Open</td><td></td><td rowspan="2">Would any decisions proposed :

(a) Be entirely within Cabinet's powers to decide YES

(b) Need to be recommendations to Council NO

(c) Be partly for recommendations to Council NO
and partly within Cabinets powers –</td></tr>
<tr><td>Any especially affected Wards</td><td>Operational</td></tr>
<tr><td colspan="2">Lead Member: Cllr David Pope
E-mail: cllr.david.pope@west-norfolk.gov.uk</td><td>Other Cabinet Members consulted: Cllr Elizabeth Nockolds, Cllr Nick Daubney, Cllr Alistair Beales
Other Members consulted:</td></tr>
<tr><td colspan="2">Lead Officer: Chris Bamfield
E-mail: chris.bamfield@west-norfolk.gov.uk
Direct Dial: 01553 616648</td><td>Other Officers consulted: Simon McKenna, David Thomason, Ray Harding, Lorraine Gore, Nicola Leader</td></tr>
</table>

Financial Implications YES	Policy/Personnel Implications NO	Statutory Implications (incl S.17) NO	Equal Opportunities Implications NO	Risk Management Implications YES

Date of meeting: 3 July 2012

2 LYNNSPORT FITNESS/COLLEGE OF WEST ANGLIA

Summary

The report considers the use and income generated from fitness facilities at Lynnsport and the partnership working with the College of West Anglia (COWA) for leisure courses. The report proposes that the Lynnsport facilities be reorganised to divide the current seven lane Bowls Hall into a Fitness Suite of 438m^2 (current area 290m^2) while retaining a five lane Bowls Hall.

The capital cost of the works are estimated at £325,000 to be funded from prudential borrowing as an Invest to Save scheme.

Consultation has taken place with relevant organisations and groups and will be reported at the meeting.

An outcome of the proposal is the long-term commitment of COWA to the Lynnsport site. The College will then close the sports facilities on site and convert them for other educational use. The College need the Council's approval for this action.

Recommendation

That Cabinet agrees to;

1) approve the Lynnsport building change to create a new Fitness Suite and five lane Bowls Hall
2) amend Capital Programme to include a budget of £325,000 for the cost of works at Lynnsport to be met from unsupported borrowing charges through increased revenue.
3) the Council give consent to the College of West Anglia reference the

2003 agreement to convert the sports facilities to education use on a permanent basis.

Reason for Decision

To maximise the use and income from Lynnsport and confirm the long-term use of Lynnsport by the College of West Anglia.

1. BACKGROUND

1.1 The fitness facilities at Lynnsport are the most used part of the centre and generate the greatest income. Since Lynnsport opened in 1991 the fitness facilities have been extended four times. Despite the extensions and enhancements, the space is not attractive in comparison with more modern facilities or indeed with the Council's Downham Market Leisure Centre fitness suite or the Oasis.

1.2 The fitness facilities at Lynnsport generated £360,000 income (ex VAT) in 2011/12, this represents 39% of the total income for the centre yet the area of the fitness suite is less than 7%. Looking forward, the fitness facilities are likely to continue to be a major source of income for the centre. In considering the Council's overall financial position and the ongoing reduction in Government grant it will be important for non statutory services to maximise income generated.

1.3 In September 2011, the College of West Anglia (COWA) moved its Leisure Studies courses to the Lynnsport complex. The College covered the capital cost of works to create classroom spaces in what was an under utilised area of the Sandringham Suite. The College now hires activity space from the Council filling previously dead time in the daytime and creating an income of circa £50,000 per annum.

1.4 The initial move of COWA leisure courses to Lynnsport was on a temporary basis to facilitate the building work at the College currently taking place. The College have confirmed their intention to continue long-term with the arrangements on the Lynnsport site but have also been consulting on the future of their Pulse 8 fitness centre.

1.5 The College have now confirmed their intention to close Pulse 8 and have asked if Lynnsport can accommodate this element of their leisure courses.

1.6 The current Lynnsport fitness suite has 80 stations in an area of $290m^2$. The Pulse 8 centre is 30 stations in $150m^2$. It is not possible for the existing Lynnsport fitness suite to cater for the College needs. As well as catering for College sessions Pulse 8 has paid custom creating £50,000 of income in 2011/12.

1.7 Taking account of the importance of fitness usage and income for Lynnsport and the requirements of the College, consideration has been given to options to improve and extend the fitness provision both to create extra income, cater for the College requirements and maintain the long-term synergy of the arrangements between the Council and the College.

2. OPTIONS

2.1 Three options have been considered for the fitness area;

- New build
- Conversion of the Table Tennis Centre, Pelicans Bar and part of the Squash Courts
- Conversion of two/three lanes of the Bowls Hall to fitness use.

2.2 New Build

2.2.1 A possible new build option would be an extension of the existing fitness area into what is currently the service yard of the centre.

2.2.2 This has the benefit of no loss of any existing activity space and minimal disruption of services during any works.

2.2.3 It would not resolve the existing issues with DDA, the ambience of the fitness area or offer a significant improvement to the fitness provision. There are level changes between the fitness room and the car park which will create construction issues. It would also increase revenue costs from rates, maintenance, utilities, etc.

2.2.4 The cost of an extension of the existing area is estimated at £471,000.

2.3 Table Tennis/Pelicans

2.3.1 Consideration has been given to the development of the existing Table Tennis Centre, Pelicans' Social Area, and one Squash Court as a fitness centre. This would involve the loss of the Table Tennis area, the conversion of one Squash Court with a mezzanine floor for fitness use and the transfer of the Pelicans' Social Area to the current fitness suite. To create suitable access, building works would be required through the Gymnastics area and the loss of current gymnastics and Sports Hall storage space.

2.3.2 The changes would create a combined area of circa 380m^2.

2.3.3 Issues

- Loss of Table Tennis Centre an income of £8,000 with no suitable alternative provision.
- Loss of one Squash Court and possible income loss of £3-4,000

- capital cost of circa £870,000 .
- Significant disruption during building works.

2.4 Bowls Hall

2.4.1 The Bowls Hall currently has seven bowls lanes. In total area represents 33% of the indoor activity space of the centre but generates only 3% of the income.

2.4.2 Bowls usage and income peaked in 1998/99 when the Pentney Bowls Hall was closed at £41,749. Since that date usage has slowly dropped, in 2010/11 income was £28,536.

2.4.3 The guidance from Sport England for Bowls Lanes is one rink for 14-17,000 population. Currently in the borough, there are seven rinks at Lynnsport, four at Hunstanton Oasis and six at Pentney Bowls Club (just outside the borough, Fakenham also has four rinks). These 17 rinks could cater for a population of 238-289,000 compared to the borough's population of 140,000.

2.4.4 Considering the peak year for Lynnsport in 1998/99 then the income was £41,749 or £5,964 per rink. In 2010/11 income was £28,536 or £4,077 per rink. If these figures were adjusted for price increases over the 12 year period then the 1998/99 figure would be circa £7,450 per rink. At current income levels a reduction to five rinks would equate to £5,707 per rink and £7,134 for four rinks.

2.4.5 A review of the occupancy levels of the Bowls Hall shows that average winter occupancy is approximately 30-35% falling to 15-20% in the summer.

2.4.6 The peak slot for Bowls is 7.00-9.00pm when the Bowls Club book 6/7 rinks. This is a reduction from their previous arrangements when they would book six slots from 6.30-8.30 and six slots from 8.30-10.30.

2.4.7 Since 1997/98 Lynnsport Indoor Bowls Club rink bookings are down by more than 50% from 108 to 53 rinks per week booked in 2011/12.

2.4.8 A conversion of part of the Bowls Hall, the section adjacent to the main entrance thoroughfare would be relatively simple to achieve and in capital costs building works would be circa £325,000.

2.4.9 The site adjacent to the entrance would allow windows for external views and importantly for customers, to see the fitness provision as an additional selling point.

2.4.10 In terms of overall space, the use of two rinks for a fitness suite would create 438m^2 of space or 580m^2 for three rinks. The space provided would also be far more accessible and useable than the current arrangements and fully DDA compliant.

2.4.11 A reduction in two of the number of rinks in KLWN to 15 would still cater for a population of circa 225,000 or by three for circa 210,000.

2.5 After considering the options, the Bowls conversion offers the best mix of space, revenue value for money and capital cost.

3. INCOME GROWTH

3.1 It is estimated that a new fitness facility of 438m^2 created from the Bowls area would be significantly more attractive than the existing space and create additional revenue from general use. In addition, a proportion of the existing Pulse 8 customers would be expected to switch to using Lynnsport.

3.2 Some additional revenue costs for the air conditioning of the Bowls space are anticipated but there would be no other revenue costs.

3.3 It is estimated that the proposals would have a positive revenue impact of £30-50,000 per annum rising to circa £100,000 over the next five years.

4. CONSULTATION

4.1 Consultation is taking place with the Bowls Club/towards general users and with Fitness customers and will be reported at the meeting.

4.2 The College of West Anglia fully support the proposals.

5. FINANCIAL IMPLICATIONS

5.1 The works are primarily changes to the structure of the building and the costs of £325,000 would be subject to a loan over a 15 year period. The cost of the loan at current rates is estimated to be £25,000 per annum and this will be met from a portion of the additional income generated from the changes.

5.2 The proposal secures the long-term arrangement with COWA. The two phases of general sports use and fitness use will create additional revenue of £80-100,000.

6. CLOSURE OF KING'S LYNN SPORTS CENTRE

6.1 In 1997 the Agreement which vested the ownership of the King's Lynn Sports Centre in NORCAT (now COWA) provided that "any alterations or extensions to the Sports Centre and the provision of additional equipment shall be agreed between the parties hereto who will at the same time decide how and by whom the capital and maintenance cost thereof shall be met"

6.2 A subsequent Agreement made in February 2003 to amend the terms on which we shared the user responsibility of the Centre provides that "the College shall give to the Council notice in writing of and shall require the Council's consent in writing to any physical alterations or extensions to the Sports Centre ….. issues regarding consent are to be discussed at the Liaison Committee of the College and the Council".

6.3 It is proposed that Cabinet gives consent to the College to close the sports facilities and use the buildings for other educational purposes subject to the details of the arrangements being finalised by the College Council Liaison Committee.

7. PROCUREMENT

7.1 After discussion with Portfolio Holders and the Deputy Chief Executive, tenders have been obtained during June for the works to divide the Bowls Hall. Should Cabinet agree to proceed with this proposal then the works to divide the space can be completed during August and early September ready for the start of the Bowls season in mid September. The work to complete the fitness area can then take place in the lead up to Christmas with a planned reopening of the new facilities in January 2013.

7.2 As part of the arrangements, the current Pulse 8 equipment will be transferred from the College to the Council.

8. RISK MANAGEMENT

8.1 The main risk in the project is the potential for a higher overall capital cost which will not be apparent until after the work to create the dividing wall has taken place.

8.2 To minimise this, the overall project budget has a contingency of £20,000 and an estimated further £20,000 of cost which could be excluded without preventing the project from proceeding, for example, external windows in the Bowls Hall. The risk is therefore assessed as minimal.