CABINET
10 JANUARY 2012

ITEM NO. ....

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT

Responsible Cabinet Member - Councillor Stephen Harker, Efficiency and Resources Portfolio

Responsible Director - Paul Wildsmith, Director of Resources

SUMMARY REPORT

Purpose of the Report

1. This report seeks approval of revised Prudential Indicators and provides a half-yearly review of the Council's borrowing and investment activities. Cabinet are requested to forward the revised indicators to Council for their approval and note changes to the MTFP with regard to the Treasury Management Budget.

Summary

2. This report and the prudential indicators contained in it were examined by Audit Committee on 16th December 2011 and it was agreed at that meeting that the report be referred to Council via Cabinet to enable the updated indicators to be approved and that Cabinet be advised that Audit Committee is satisfied with the Councils borrowing and investment activities and the reported indicators.

3. The mandatory Prudential Code, which governs Council's borrowing, requires Council approvals of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid year update. The mid year update follows Council's approval in March 2011 of the 2011/12 Prudential Indicators and Treasury Management Strategy.

4. The key objectives of the three annual reports are:

   (a) to ensure that governance of the large amounts of public money under the Council's Treasury Management activities:
      (i) complies with legislation
      (ii) meets high standards set out in codes of practice
   (b) to ensure that borrowing is affordable,
   (c) to report performance of the key activities of borrowing and investments.

5. The key proposed revisions to Prudential Indicators relate to:

(a) higher capital expenditure in 2011/12 due to increased capital expenditure slippage from 2010/11.
(b) Increased borrowing for the Housing Revenue Account (HRA) purposes of £33.800M due to HRA self-financing reforms. This has increased both the Operation Boundary and the Authorised Limit on borrowing.

Recommendation

6. It is recommended that :-

(a) The revised prudential indicators and limits within the report in Tables 2 to 17 are examined.

(b) The Treasury Management half yearly review is noted.

(c) That this report is forwarded to Council in order for the updated prudential indicators to be approved.

Reasons

7. The recommendations are supported by the following reasons :-

(a) In order to comply with the Prudential Code for Capital Finance in Local Authorities.

(b) To inform Members of the performance of the Treasury Management function.

(c) To inform Members of the borrowing implications of the Housing Revenue account self financing reforms.

(d) To comply with the requirements of the Local Government Act 2003.

(e) To enable further improvements to be made in the Council's Treasury Management Function.

Paul Wildsmith
Director of Resources

Background Papers

1. Capital Medium Term Financial Plan 2011/12
2. Accounting records
3. The Prudential Code for Capital Finance in Local Authorities
4. The Housing Revenue Account Self-financing Determinations - Consultation

Elaine Hufford: Extension 2447

S17 Crime and Disorder	This report has no implications for S17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda.
Carbon Impact	This report has no impact on the Council's Carbon Emissions.
Diversity	This report has no implications for the Council's Sustainability agenda.
Wards Affected	All Wards.
Groups Affected	All Groups.
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is a key decision.
Urgent Decision	For the purposes of call in this report is not an urgent decision.
One Darlington: Perfectly Placed	This report has no particular implications for the Sustainable Community Strategy.
Efficiency	This report refers to actions taken to reduce costs and manage risks.

MAIN REPORT

Information and Analysis

8. Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid-year review, in addition to the forward looking annual treasury management strategy and backward looking annual treasury management report previously required.

9. This report meets that requirement. It also incorporates the needs of the Prudential Code to ensure monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The treasury strategy and PIs were previously reported to Council on 3rd March 2011.

10. This report concentrates on the revised positions for 2011/12. Future years' indicators will be revised when the impact of the MFTP for 2012/13 onwards is known.

11. A summary of the revised headline indicators for 2011/12 is presented in **Table 1** below. More detailed explanations of each indicator and any proposed changes are contained in the report. The revised indicators reflect the approved movement in the Capital MTFP since its inception in March 2011and the means by which it is financed.

Table 1 Headline Indicators

	2011/12 Original Estimate	2011/12 Revised Estimate
	£M	£M
Capital Expenditure (Tables 2 and 3)	31.261	38.395
Capital Financing Requirement (Table 4)	143.939	177.308
Operational Boundary for external debt (Table 4)	116.693	136.698
Authorised Limit for External debt (Table 6)	128.362	150.368
Ratio of Financing Costs to net revenue stream – General Fund (Table14)	4.68%	4.13%
Ration of Financing costs to net revenue stream – Housing Revenue Account (HRA) (Table 14)	9.15%	8.42%

12. The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework and the position against the treasury management indicators is shown at the end.

13. The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Communities and Local Government Investment Guidance which state that Members receive and adequately scrutinise the treasury management service.

14. The underlying economic environment remains difficult for Councils, concerns over counterparty risk is still challenging. This background encourages the Council to continue

investing over the short term ie up to a maximum of 1 year and with high quality UK counterparties. The downside of this policy is that investment returns remain low.

Key Prudential Indicators

15. This part of the report is structured to update

(a) The Council's capital expenditure plans;
(b) How these plans are being financed;
(c) The impact of the changes in the capital expenditure plans on the PI's and the underlying need to borrow;
(d) Compliance with the limits in place for borrowing activity; and
(e) The revised financing costs budget for 2011/12.

Capital Expenditure PI

16. **Table 2** shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

Table 2

Capital Expenditure by Service	2011/12 Original Estimate	2011/12 Revised Estimate
	£M	£M
General Fund	19.930	22.956
HRA	11.331	15.439
Total	**31.261**	**38.395**

17. The changes to the 2011/12 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget Monitoring process.

18. The main changes are

(a) The original Prudential Indicators assumed that the majority of the capital funding secured for 2010/11 would be expended in that year. It was expected that £12.100M would slip into future years however this increased to £27.453M as approved schemes included in 2010/11 were actually for future years.

(b) It is expected that £4.100M of the approved Capital budget for 2011/12 will slip into future years.

(c) A full reconciliation of the changes in capital expenditure for 2011/12 is attached at **Appendix 1**

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

19. **Table 3** below draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original supported and unsupported elements of the capital

programme, and the expected financing arrangements of this capital expenditure. The borrowing element (Borrowing Need) increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Capital Expenditure	2011/12 Original Estimate	2011/12 Revised Estimate
	£M	£M
Supported	24.075	24.547
Unsupported	7.186	13.848
Total Spend	31.261	38.395
Financed by		
Capital receipts	0.300	1.303
Capital grants	24.075	23.080
Capital contributions	-	0.558
Revenue	2.340	5.410
Total Financing	26.715	30.351
Borrowing Need	4.546	8.044

Implications of the Reform of the HRA on the Capital Financing Requirement

20. The proposed reform of the HRA subsidy arrangements are expected to take place on 28th March 2012. This will involve the Council paying funds to the Government through the Department for Communities and Local Government (CLG) which will remove the Council from the HRA subsidy system. The latest figure we have for our payment is £33.800M. This one-off payment is compensation, ensuring the HRA will no longer make future annual payments to the CLG. The borrowing that will be required for this transaction will be taken from the Public Works Loans Board who will offer a special reduced rate for fixed and variable loans relating to this transaction. These loans will be held in a separate loans pool so will not affect the interest rate charged to the general fund.

21. It is expected that the overall impact will be beneficial to the Council. A detailed report on the HRA Self –Financing will be taken to Cabinet/Council in the same round as the MTFP in Jan/Feb 2012. The HRA Self- Financing will impact on both the capital structure of the Council (as the HRA Capital Financing Requirement will rise by the size of the CLG payment), and the treasury management service will need to consider the funding implications for the borrowing that will need to be undertaken in order to make this payment.

Changes to the Capital Financing Requirement (PI), External Debt (PI) and the Operational Boundary (PI)

22. **Table 4** shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for capital purposes. It shows the expected debt position over the period. This is called the Operational Boundary

Prudential Indicator -External Debt / the Operational Boundary

Table 4

	2011/12 Original Estimate £M	2011/12 Revised Estimate £M
Prudential Indicator – Capital Financing Requirement		
CFR- General Fund	79.465	79.932
CFR – General Fund PFI/Leasing IFRS	23.693	21.898
CFR - Housing	40.781	41.678
CFR – Housing Self Financing		33.800
Total CFR	143.939	177.308
Net movement in CFR		
Prudential Indicator – External Debt/ the Operational Boundary		
Borrowing	93.000	81.000
Borrowing Housing Self-financing		33.800
Other long term liabilities *	23.693	21.898
Total Debt 31 March- Operational Boundary	**116.693**	**136.698**

*Includes on balance sheet PFI schemes and finance leases

Prudential Indicator – Capital Financing Requirement

23. The reduction in PFI/Leasing (£1.795M) in the main relates to actual leases whereas the original was an estimate of what we expected to be brought on the balance sheet under the new International Financial Reporting Standards (IFRS).

24. The Housing Self Financing amount relates to the payment expected to be made at the end of March 2012 as explained in paragraph 19.

Limits to Borrowing activity

25. The first key control over the treasury activity is a PI to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Net borrowing should not, except in the short term exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2011/12 and the next two financial years. As shown in table 5 below. Please note that the original estimates for 2012/13 and 2013/14 below have yet to be increased for the Housing Self Financing, but the net borrowing for 2011/12 in still comfortably below the CFR for 2013/14.

Table 5

	2011/12 Original Estimate £M	2011/12 Revised Estimate £M	2012/13 Original Estimate £M	2013/14 Original Estimate £M
Gross borrowing including Housing self financing	91.000	114.800		
Plus Other Long Term Liabilities*	23.693	21.898		
Less investments	-20.000	-15.000		
Net borrowing	94.693	121.698		
CFR* (year end position)	143.939	177.308	137.696	131.640

*Includes on balance sheet PFI schemes and finance leases

26. The Director of Resources reports that no difficulties are envisaged for the current and future years in complying with this PI.

27. A further PI controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by members. It reflects the level of borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit is set by increasing the Operational Boundary (Total Debt Table 4) by 10%to allow headroom for unexpected movements. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003.

28. It is proposed to move the Authorised Limit in **Table 6** in line with the movement in the Operational Boundary.

Table 6

Authorised limit for external debt	2011/12 Original Indicator £M	2011/12 Revised Indicator £M
Borrowing	104.669	126.280
Other Long Term Liabilities	23.693	24.088
Total	128.362	150.368

Economic Outlook for the coming months to March 2012 (Supplied by Sector)

29. *There remain huge uncertainties in economic forecasts due to the following major difficulties*

    (a) *The speed of economic recovery in the UK, US and EU*
    (b) *The likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of Presidential elections in November 2012*
    (c) *The potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy*
    (d) *The degree to which government austerity programmes will dampen economic growth*
    (e) *The potential for further quantative easing, and timing of this in both the UK and the US*

(f) The speed of recovery of banks' profitability and balance sheet imbalances

30. *The overall balance of risks is weighted on the downside*

31. *We expect low and modest growth in the UK to continue, with a low Bank Rate to continue for at least 12 months, coupled with a possible further extension of quantitative easing. This will keep investments returns depressed*

32. *The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.*

Table 7
Medium- Term Rate Estimates

Annual Average	***Bank rate***	***Money rates for investment purposes***			***PWLB rates for borrowing purposes***			
		3 month	***6 month***	***1 year***	***5 year***	***10 year***	***25 year***	***50 year***
	%	*%*	*%*	*%*	*%*	*%*	*%*	*%*
2011/12	*0.50*	*0.75*	*1.0*	*1.50*	*2.64*	*3.85*	*4.92*	*4.95*
2012/13	*0.70*	*0.85*	*1.4*	*1.90*	*3.20*	*4.45*	*5.15*	*5.15*
2013/14	*1.70*	*1.80*	*2.3*	*2.9*	*3.88*	*4.85*	*5.40*	*5.4*

Treasury Strategy 2011/12 – 2013/14

Debt Activity during 2011/12

33. The expected borrowing need is set out below

Table8

	2011/12 Original Estimate £M	2011/12 Revised Estimate £M
CFR (year end position)	143.939	177.308
Less other long term liabilities PFI and finance leases	23.693	21.898
Net adjusted CFR (year end position)	120.246	155.410
Expected Total Borrowing	91.000	114.800
(Under)/over borrowing	(29.246)	(40.610)
Expected Net Movement in CFR	-1.490	35.796
Expected Net Movement in CFR represented by		
Net financing need for the years from table 3	4.546	8.044
Borrowing for Housing Self Financing		33.800
MRP/VRP	-4.681	-3.923
MRP relating to finance leases including PFI	-1.355	-2.125
Movement in CFR	-1.490	35.796

34. The Council is currently under- borrowed (total actual borrowing is less than the balance sheet requires CFR) to address investment counterparty risk and the cost of carry on investments (investment return up to 1% and long term borrowing rates for the council are

currently 3.22%). There is an interest rate risk, as longer term borrowing rates may rise, this position is being carefully monitored.

35. New borrowing of £4.750M was taken in mid- November for ten years at an interest rate of 3.19% this will cover £4.750M which is due to be repaid in January 2012.

Investment Strategy 2010/11-2012/13

36. The key objectives of the Council's investment strategy are safeguarding the repayment of the principal and interest of its investments on time- the investment yield being a secondary objective. Following on from the economic background above, the current investment climate has one over-riding risk consideration, that of counterparty risk. As a result of these underlying concerns officers continue to implement an operational investment strategy which tightens the controls already in place in the approved investment strategy.

Treasury Management Activity from 1st April 2011 to 30th September 2011

37. Current investment position- The Council held £25.735M of investments at 30/09/2011 and this is made up of the following parts

Table 9

Sector	**Country**	**Up to 1 year**	**1 -2 years**	**2-3 years**
		£M	**£M**	**£M**
Banks	UK	**17.000**	**Nil**	**Nil**
Building Societies	UK	**0**	**Nil**	**Nil**
AAA Money Market Funds	Sterling Fund	**8.375**	**Nil**	**Nil**
Total		**25.735**	**Nil**	**Nil**

Short Term Cashflow Investments

38. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. A total of 79 investments were made in the period 1st April 2011 to 30th September 2011 totalling £96M these were for periods of between 1 and 364 days and earned interest of £86,938 for the period from April to September at an average rate of 0.84%

Longer Term Capital Investments

39. The Council's reserves and capital receipts are invested for varying periods up to the maximum permitted time of 3 years although in the present economic climate longer term investments are limited to a maximum of 3 months. The investments have been at an average level of £8.800M. Some individual loans have matured and been renewed during this period. The longer term investments have earned interest of £70,400 for the first six months of 2011/12 at an average rate of 1.6%

Investment returns measured against the Service Performance Indicators

40. The target for our investment returns is to better or at least match a number of external comparators, this performance indicator is also known as yield benchmarking.

41. As can be seen from **Table 10,** the short term cashflow investments achievements are above market expectations. The long term capital investments are also above the long term indicators due to placing investments for periods of 6 to 12 months when interest rates were higher. Recently we have been advised by our treasury management advisors, Sector, to invest for no longer than 3 months with the majority of our counterparties, due to current concerns about the banking sector generally, but this can be extended up to 1 year where the Government is a major shareholder in the counterparty ie Lloyds and Royal Bank of Scotland. This may mean that our rate of return will drop over the coming months. It is expected that our returns will remain above the average indicators for short term investments but may fall short of the long term capital investments because of the restriction to 3 month investments.

Table 10

	Short Term Cashflow Investments %	**Long Term Capital Investments %**
Darlington Borough Council -Actual	**0.84**	**1.60**
External Comparators		
Local Authority- 2 day	0.39	
Local Authority - 7 day	0.47	
Local Authority - 6 months		1.04
Local Authority - 12 months		1.52
London Inter Bank Bid Rate – 7 day	0.47	0.47
Average of External Comparators	**0.42**	**1.01**

Treasury Management Budget

42. There are three main elements within the Treasury Management Budget:-

(a) Long term capital investments interest earned – a cash amount of c£8.800M which earns interest and represents the Council's revenue and capital balances, unused capital receipts, reserves and provisions.
(b) Cashflow interest earned – since becoming a unitary council in 1997, the authority has consistently had a positive cashflow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipt of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.
(c) Debt servicing costs – This is the principal and interest costs on the Council's long term debt to finance the capital programme

Table 11 - Changes to Treasury Management Budget 2011-12

	£m	£m
Original Treasury Management Budget 2010-11		**3.970**
Less Reduced Repayment of Principal	-0.312	
Less Reduced Interest payments made on debt	-0.301	-0.613
Add Reduced interest from Investments	+0.193	+0.193
Revised Treasury Management Budget 2010/11		**3.550**

43. The repayment of principal is reduced because the timing of capital expenditure is later than expected and the interest payable was reduced for the same reason and because of a reduced consolidated interest rate on the Council's debt.

44. This statement concludes that the Treasury Management budget is forecast to achieve an improvement of £0.420M in 2011/12 savings in finance costs will be returned to Council balances.

Risk Benchmarking

45. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in Table 10. Discrete security and liquidity benchmarks are new requirements to the member reporting. These were first set in the Treasury Strategy report of the 25thFebruary 2010.

46. The following reports the current position against the benchmarks originally approved.

47. **Security –** The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables was set as follows:

    0.077% historic risk of default when compared to the whole portfolio

48. The Director of Resources can report that the investment portfolio was maintained within this overall benchmark during this year to date as shown in Table 12

Table 12

Maximum	**Benchmark 2011/12**	**Actual June**	**Actual August**	**Actual October**
Year 1	0.077%	0.006%	0.006%	0.006%
Year 2	0.056%	0.000%	0.000%	0.00%
Year 3	0.077%	0.000%	0.000%	0.00%

49. The counterparties that we use are all high rated therefore our actual risk of default based on the ratings attached to counterparties is virtually nil.

50. **Liquidity –** In respect of this area the Council set liquidity facilities/ benchmark to maintain

    (a) Bank Overdraft -£0.100M

(b) Liquid short term deposits of at least £3.000M available within a weeks notice
(c) Weighted Average Life benchmark is expected to be 0.4 years with a maximum of 1years

51. The Director of Resources can report that liquidity arrangements have been adequate for the year to date as shown in Table 13

Table 13

	Benchmark	Actual June	Actual August	Actual October
Weighted Average life	**0.4 to 1 year**	**0.29 years**	**0.18 years**	**0.19years**

52. Sector, our treasury management advisors, have recently advised that new fixed investment deposits for the majority of the banks on our counterparty list should be restricted to a maximum period of 3 months, which we are adhering to. This action will further reduce the weighted average life of our investments over the coming months.

53. The Council are at present holding some investments in Bank Call accounts, which allow withdrawal without notice, these are currently paying a better rate of interest than some medium term fixed investments so these increase our liquidity thereby reducing the weighted average life of our investments without sacrificing yield.

Treasury Management Indicators

54. **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

Table 14

	2011/12 Original Indicator	2011/12 Revised Indicator
General Fund	**4.68%**	**4.13%**
HRA	**9.15%**	**8.42%**

55. The changes to the General Fund reflect the reduction in financing costs as shown in Table 11 but also include payments of interest and repayments of principal associated with finance leases and the PFI scheme.

56. The reduced % from 9.15% to 8.42% for HRA reflects reduced interest and re-profiling of principal repayments due to the change in the profile of capital spend and reduction of departmental borrowing costs. New debt taken for Housing self financing will have little change on financing costs for 2011/12 as this debt will not be taken until 28th March 2012.

Treasury Management Prudential Indicators

57. **Upper Limits on Variable Rate Exposure –** This Indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

58. **Upper Limits on Fixed Rate Exposure –** Similar to the previous indicator this covers a maximum limit on fixed interest rates.

59. Historically for a number of years this Council has used these percentages; together they give flexibility to the treasury management strategy allowing the Council to take advantage of both fixed and variable rates in its portfolio whilst ensuring that its exposure to variable rates of interest is limited. The Council currently has 2 loans totalling £7.0M which have variable rates of interest; this represents 8.6% of the Council's total debt portfolio.

Table 15

	2011/12 Original Indicator	2011/12 Revised Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

60. **Maturity Structures of Borrowing –** These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing. The higher limits for longer periods reflect the fact that longer maturity periods generally attract lower interest rates and give more stability to the debt portfolio.

Table 16 **Maturity Structures of Borrowing**

	2010/11 Original Indicator	2011/12 Actual to date	2011/12 Revised Indicator
Under 12 months	25%	8%	25%
12 months to 2 years	40%	8%	40%
2 years to 5 years	60%	0%	60%
5 years to 10 years	80%	6%	80%
10 years and above	100%	78%	100%

61. **Total Principal Funds Invested** –These limits are set having regard to the amount of reserves available for long term investment and show the limits to be placed on investments with final maturities beyond the year-end. This limit allows the authority to invest for longer periods if they give better rates of return than shorter periods. It also allows some stability in the interest returned to the Authority.

Table 17 **Total Principal Funds Invested**

	2011/12 Original Indicator	2011/12 Revised Indicator
Maximum principal sums invested greater than 1 year	£10M	£10M

Treasury Management Advisors

62. The council continues to receive Treasury Management advice from Sector. The contract will be retendered in June 2012.

Conclusion

63. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) has been increased to

accommodate the expected additional borrowing required for the Housing Revenue Account Self-Financing reforms, which will be required just before the end of March 2012. The Council's return on investments has been good, exceeding both of the targets set matching external comparators for the first six months of the current financial year, however the longer term capital investment return may fall short of the external indicators due to the 3 month restriction on investments Based on the first six months of 2011/12 the Council's borrowing and investments is forecast to achieve an improvement of £0.420M on the 2011/12 approved budget.

64. The Council's treasury management activities comply with the required legislation and meet the high standards set out in the relevant codes of practice.

Outcome of Consultation

65. No consultation was undertaken in the production of this report, however this report was examined by Audit Committee at its meeting on 16th December 2011 and its recommendations are outlined in paragraph 2 of this report.