Minutes
of a meeting of the
Executive
held at 2.30pm on Friday 5 February 2010
at the Guildhall, Abingdon

Vale of White Horse District Council

Open to the Public, including the Press

Present:

Members: Councillors Tony de Vere (Chair), Jerry Patterson (Vice-Chair), Mary de Vere, Richard Farrell, Jenny Hannaby, Angela Lawrence and Richard Webber

Officers: Steve Bishop, Alice Brander, David Buckle, Geoff Bushell, Steve Culliford, Mike Gilbert, William Jacobs, Clare Kingston, Steve Lawrence, Andrew Morgan, Matt Prosser, Margaret Reed, Anna Robinson, Tim Treuherz, Chris Tyson, Bob Watson, Sally Wilson and Robert Woodside

Number of members of the public: 2

Ex.48 Apologies for absence

None

Ex.49 Minutes

The minutes of the Executive's meeting held on 4 December 2009 were adopted and signed as a correct record.

Ex.50 Declarations of interest

Councillors Jenny Hannaby and Angela Lawrence each declared a personal interest in item 9 'Draft Budget 2010/11' as they were members of Wantage and Abingdon Town Councils respectively and these councils would be affected by the budget proposals (minute Ex.56 refers).

Ex.51 Urgent business and chair's announcements

None

Ex.52 Statements, petitions and questions relating to matters affecting the Executive

None

Ex.53 Referrals from the Scrutiny Committee and other committees

None

Ex.54 Comprehensive area assessment/organisational assessment

(Time: 2.33pm to 2.43pm)

The Executive received a presentation from Rob Hathaway of the Audit Commission on the council's 2009 comprehensive area assessment and organisational assessment. He congratulated the council on achieving a score of three out of four in the comprehensive area assessment. He commended the council on the way it had used its resources to embrace change and achieved very good value for money. He welcomed the improvement in the way community needs had been met and for its leadership on climate change. The council had done well in areas such as affordable housing, waste collection and recycling, supporting the economy, and the community strategy.

The council still had challenges to overcome, such as improving benefits performance. He suggested the council should apply pressure to achieve a target of dealing with all new benefits claims within 20 days. Another area for improvement was to work in partnership with the private sector to achieve higher rates of house building.

The Executive welcomed the Audit Commission's comments and recognised that improvements had to be made in the two main areas of benefits' administration and house building. However, the Executive was pleased with the improvements that had been made to service delivery and congratulated the council's staff on achieving the score of three out of four.

RESOLVED

that the comprehensive area assessment score of three out of four be welcomed and staff be congratulated on achieving this level of performance.

Ex.55 Budget virement requests

(Time: 2.43pm to 2.44pm)

The Executive considered an agenda report setting out requests for virements (table 1). Councillors approved the requests.

The Executive also noted a schedule of virements approved by the Chief Finance Officer under delegated authority (table 2).

RESOLVED

that the virements set out in table 1 to the agenda report be approved.

Ex.56 Draft budget 2010/11

(Time: 2.44pm to 2.54pm)

(Councillors Jenny Hannaby and Angela Lawrence each declared personal interests in this item and in accordance with Standing Order 34, they remained in the meeting during its consideration.)

The Executive received and considered report 109/09 of the Head of Finance that set out draft Executive budget proposals for 2010/11 to 2014/15. The portfolio holder for finance presented the report. This included a medium term financial plan covering the same period, schedules of unavoidable budget adjustments, savings, growth proposals, the capital programme, and car parking charges. The Executive noted that the revised scheme of delegation gave authority to directors and heads of service to determine the fees and charges to be levied for all council services, excluding car parking charges.

Tabled at the meeting was an addendum to the report, with amended recommendations and additional appendices showing one-year supplies and services budget reductions (appendix G), and a schedule of proposed partnership grants for 2010/11 (appendix H).

The portfolio holder reported that the preparation of the budget had been more difficult this year than in previous years. However, through careful management, the proposed budget showed the council would have robust balances at the end of the medium term financial plan period. Council Tax increases would be maintained at reasonable levels of 3.9 per cent per annum. The savings proposed were in low or minimum risk areas. Some parking charges would increase—the first increase in three years—but there would be no charge after 4pm. Staff were thanked for their input to the budget preparation and in identifying savings.

In forming the budget proposals the Executive had listened to the consultation responses and made some adjustments. The Executive had also considered the equality impact assessments of the proposed savings. The amended budget proposals were recommended to the Council for adoption on 17 February 2010.

R E C O M M E N D E D

(a) *that the Council approves:*

  (i) *the Medium Term Financial Plan 2010/11 to 2014/15;*

  (ii) *the inclusion of unavoidable service budget adjustments within the council's budget;*

  (iii) *the inclusion of savings within the council's budget;*

(iv) the inclusion of the growth proposals within the council's budget;

(v) the items proposed for the Capital Programme 2010/11 and to note possible future capital schemes for 2011/12;

(vi) the car parking fees and charges as proposed;

(vii) the inclusion of the one-year supplies and services budget reductions;

(viii) the payment of grants to external organisations;

(b) that the savings set out in appendix C to the report be agreed and the officers be authorised to take all necessary steps to achieve those savings; and

RESOLVED

(c) that authority be delegated to the portfolio holder with responsibility for finance to make minor changes to the Executive's budget proposals, if necessary, to take account of unforeseen issues prior to the Council considering the proposals at its meeting on the 17 February 2010, provided that the portfolio holder notifies the Council of any such changes at that meeting.

Ex.57 Treasury management and investment strategy 2010/11 - 2012/13

(Time: 2.54pm to 2.58pm)

The Executive received and considered report 102/09 of the Head of Finance. This set out a draft treasury management and investment strategy to cover the period 2010/11 to 2012/13. The Executive was asked to recommend adoption of the strategy to the Council.

The report outlined the council's treasury management prudential indicators for 2010/11 and set out the expected treasury operations, fulfilling legislative requirements as follows:

- The reporting of the prudential indicators, setting out the expected capital activities.

- The treasury management strategy statement set out how the council's treasury service would support the capital decisions taken in the budget report, the day-to-day treasury management, and the limitations on activity through treasury prudential indicators. The key indicator was the authorised limit, the maximum amount of debt the council could afford in the short term, but which would not be sustainable in the longer term.

- The investment strategy set out the council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

Tabled at the meeting was an amendment to the report. Butlers, the council's investment advisor, on seeing the draft strategy had recommended that:

- The "standard and poor" long-term rating for good quality banks should be amended to A- to be consistent with other ratings in paragraph 23 of the draft strategy.

- The ratings for lower category institutions should be tightened and a new reference should be added for unrated institutions to show a monetary limit of £3M and a time limit of 6 months. Paragraph 26 of the draft strategy was amended to reflect these recommendations.

The portfolio holder for finance recommended the strategy, as amended. The Executive welcomed the draft strategy and recommended its adoption to the Council on 17 February 2010.

R E C O M M E N D E D

that the Council approves each of the following key elements of report 102/09:

(a) the Treasury Management Strategy 2010/11 to 2012/13 (appendix A to these minutes), and the treasury Prudential Indicators contained within the strategy (paragraph 36);

(b) the Authorised Limit Prudential Indicator as shown in paragraph 6 of the strategy;

(c) the Investment Strategy 2010/11 contained in the treasury management strategy (Appendix A), and the detailed criteria included in Annex A1;

(d) the revision to the council's Financial Regulations as at Annex A3 and consequential amendments to the constitution. This nominates the Audit and Governance Committee to ensure effective scrutiny of the treasury management strategy and policies.

Ex.58 Performance monitoring report: October to December 2009

(Time: 2.58pm to 3.05pm)

The Executive received and considered report 101/09 of the Principal Performance Management Officer. The report set out the council's performance in the period October to December 2009. It showed the council's performance against national indicators, local area agreement targets, and local performance targets. There was also an analysis of staff sickness and turnover, and a financial commentary.

The Executive reviewed performance as follows:

- The Executive asked the officer to review the local performance target 333 regarding the number of households prevented from becoming homeless through the issuing of a rent deposit bond or rent in advance. Councillors suggested the target should be redefined to prevent a high percentage of homeless.

- In relation to local performance target 318, the accuracy of benefits claims processed, councillors considered that 95 per cent performance was unsatisfactory and the two Executive members appointed to the Ridgeway Shared Services Partnership would be challenging the contractor, Capita, on this. It was noted that the officers, including the Chief Executive, had met with Capita's chief officer on this matter recently to demand higher performance.

- It was noted that there was good news on the performance against the targets for recycling, the collection of residual household waste, and street cleansing; all were on target.

- Councillors were disappointed that there was no uptake of the loans for home improvements this year, despite publicity on local radio and in the council's residents' newsletter, UnValed. The Executive asked that the publicity was repeated several times in the subsequent issues.

The Chair asked all Executive members to keep track of performance within their portfolios.

RESOLVED

that the progress made against performance targets and service plans, and the end of year predictions be noted.

Ex.59 Business continuity strategy

(Time: 3.05pm to 3.08pm)

The Executive received and considered report 100/09 of the Head of HR, IT, and Customer Services. This proposed the adoption of a business continuity strategy to allow the council to continue to deliver its services to the public in the event of a disruption or emergency. The strategy had been developed jointly with South Oxfordshire District Council; its Cabinet was due to consider the draft strategy on 8 February 2010.

The portfolio holder for HR, IT, and Customer Services recommended the strategy was adopted. The Executive welcomed the strategy, believing that it would result in better management of unforeseen circumstances or emergencies.

RESOLVED

that the business continuity strategy appended to report 100/09 be adopted.

Ex.60 Capital strategy 2010/11 - 2014/15

(Time: 3.08pm to 3.09pm)

The Executive received and considered report 103/09 of the Head of Finance. The report asked the Executive to recommend the Council to adopt the capital strategy for 2010/11 to 2014/15. This provided the framework for capital investment, bringing together the requirements of the council's strategic objectives and clarifying the parameters on how capital schemes could be progressed.

The portfolio holder for finance recommended the strategy's adoption. The Executive welcomed the capital strategy and recommended its adoption to the Council, noting that a review would be undertaken annually.

R E C O M M E N D E D

that the capital strategy 2010/11 to 2014/15 be approved, as attached as Appendix B to these minutes, and that the Council be asked to note paragraph 21 where the £5M minimum capital cash fund is set down and bears this in mind as the council runs capital receipts ever lower.

Ex.61 Wheeled bin and waste collection policies

(Time: 3.09pm to 3.11pm)

The Executive received and considered report 104/09 of the Head of Commercial Services that set out a draft wheeled bin policy. This would govern the issue and use of wheeled bins, including the circumstances where the council would offer alternative collection arrangements.

The portfolio holder for commercial services considered that a policy was needed to govern these issues and would allow efficient waste and recycling collections, reduce cost, introduce uniform standards, and would reduce disputes and complaints. The Executive agreed, welcoming the policy and the fair but firm approach being taken. Councillors looked forward to the implementation of the new waste contract and the greater efficiencies that it and this policy would bring.

RESOLVED

that the wheeled bin policy appended to report 104/09 be adopted.

Ex.62 Charging for pre-application planning advice

(Time: 3.11pm to 3.14pm)

The Executive received and considered report 107/09 of the Head of Planning that sought approval to introducing charging for pre-application planning advice on planning applications from 1 April 2010.

The portfolio holder for planning reported that the council provided pre-application advice; this was often time consuming and did not always lead to a planning application for which fees were charged. The cost of giving advice was not included in the application fees. It was noted that charging was becoming common practice amongst planning authorities. Most councils charged a fee for major developments of ten or more dwellings or 1,000m^2 of floor space, and for minor developments of up to nine dwellings or 1,000m^2. It was suggested that the council should do likewise and allow 30 minutes free advice to householders also.

It was estimated that that charging for advice could generate £20,000 annual income for the council. The revised scheme of delegation gave authority to directors and heads of service to determine the fees and charges to be levied for all council services, excluding car parking charges. The council had been recommended to adopt fixed rather than variable fees. It was likely that the fees would be set at a similar level to that at South Oxfordshire District Council.

The Executive agreed with the principle of charging for pre-application planning advice, believing it to be an appropriate way for the council to recover its costs for this service.

RESOLVED

that approval be given for charging for providing pre-application planning advice on major and minor planning applications from 1 April 2010.

Ex.63 Review of payroll administration

(Time: 3.14pm to 3.16pm)

The Executive received and considered report 106/09 of the Head of HR, IT, and Customer Services. The report reviewed the operation of the payroll service. It was currently run by South Oxfordshire District Council on behalf of this council but the service manager did not believe that it was possible to continue running the service this way due to the high cost to that council and he had recommended to South Oxfordshire that it ceased to provide the current service. The report recommended a change from a client-contractor basis to a shared service, managed in a similar way to other finance services such as Accountancy, Internal Audit, Fraud, and the Revenues and Benefits client teams. It was proposed that the payroll service should be managed jointly with South Oxfordshire and should continue to be part of the Ridgeway Shared Services Partnership, and monitored by the partnership's strategic board.

The portfolio holder for HR, IT, and customer services recommended the changes proposed to the service, believing that these would provide greater service resilience. Executive concurred with the recommendations, believing that the current service could not continue to be managed in the same way due to its high cost. The Executive accepted that longer term solution needed to be found over the next year, to manage the service on a more cost effective basis.

RESOLVED

(a) that the basis of the payroll administration service be changed to that of a shared service, subject to South Oxfordshire District Council being in agreement;

(b) that the payroll administration service continues to be part of the Ridgeway Shared Service Partnership;

(c) that the authority to agree the date of any such change be delegated to the Strategic Director and Chief Finance Officer; and

(d) *that authority be delegated to the Legal Services Manager to vary the existing agreement between South Oxfordshire District Council and the Vale to incorporate the new arrangements for the payroll service.*

Ex.64 Exclusion of the public, including the press

RESOLVED

that in accordance with Section 100A(4) of the Local Government Act 1972, the public including the press be excluded from the remainder of the meeting to prevent the disclosure to them of exempt information, as defined in Section 100(I) of Part 1 of Schedule 12A, as amended, to the Act when the following items are considered:

<u>Minutes</u>
(Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information.)

<u>Property update</u>
(Category 3)

Summary of the items considered in the exempt part of the meeting

Ex.65 Minutes

The exempt minutes of the Executive's meeting held on 4 December 2009 were adopted and signed as a correct record.

Ex.66 Property update

The Executive received an update on a property development and gave authority for changes to be made to the contract.

APPENDIX A

Treasury Management Strategy 2010/11 – 2012/13

1. The treasury management service is an important part of the overall financial management of the council's affairs. The prudential indicators in the budget report consider the affordability and impact of capital expenditure decisions, and set out the council's overall capital framework. 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. The council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). This council adopted the Code of Practice on Treasury Management in March 2002, and will adopt the revised Code.

3. As a part of the Code the council also adopted a Treasury Management Policy Statement. This adoption is required as one of the prudential indicators. However the revised Code of Practice has amended the Treasury Management Policy Statement and this is appended at Annex A3 for approval.

4. The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and the policy requires a mid-year monitoring report which is now included in the revised Code of Practice.

5. This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;
- Any local treasury issues.

Debt and Investment Projections 2010/11 – 2012/13

6. The council has to detail its borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council has no external debt and doesn't expect to borrow except temporarily for cash flow purposes. The table therefore only specifies the limits for any likely temporary borrowing and highlights the expected change in investment balances.

	2009/10 Revised	**2010/11 Estimated**	**2011/12 Estimated**	**2012/13 Estimated**
External Debt				
Operational boundary	£2 million	£2 million	£2 million	£2 million
Authorised limit	£5 million	£5 million	£5 million	£5 million
Limit at variable interest rates	nil	nil	nil	nil

Limit for maturity > 1 year	nil	nil	nil	nil
Investments				
Total Investments at 31 March	£15 million	£14 million	£13 million	£12 million

The following information and commentary has been provided by Butlers, the council's investment advisers.

Expected Movement in Interest Rates

Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	4.2	4.8	4.5
2009/10	0.5	0.8	1.4	3.2	4.4	4.6
2010/11	1.0	1.5	2.6	4.0	5.0	5.2
2011/12	2.0	2.5	3.3	4.3	5.3	5.3
2012/13	4.5	4.8	5.3	5.3	5.5	5.3

* Borrowing Rates

7. Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, (rate cuts and Quantitative Easing {QE}), could trigger a dip back to negative growth and a W-shaped GDP path.

8. Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.

9. The main drag upon the economy is expected to be weak growth in consumers' expenditure. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.

10. The MPC will continue to promote easy credit conditions via QE. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further in February. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.

11. With inflation set to remain subdued in the next few years, the pressure upon the MPC to raise interest rates will remain moderate. Some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity prices begin to rise again) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.

12. Longer term rates are expected to be more volatile. The current 'softness' of gilt yields & PWLB rates may continue for a while yet, given that these are being driven by a benign international backdrop and the effects of QE. Nevertheless this process

will come to an end before the close of the financial year. This is likely to herald a return to rising yields for a number of reasons:

- Net gilt issuance will rise sharply;
- This will be increased by the extent to which the BoE attempts to claw back funds injected to the economy via the QE programme;
- Investors will be looking to place more of their funds in alternative instruments as their risk appetite increases, demand for gilts will weaken as a consequence;
- A decision to leave QE in place will generate inflation concerns and pressurise long yields higher.

The market/BoE is in a lose/lose situation.

Investment Strategy 2010/11 – 2012/13

13. **Key Objectives -** The council's primary investment strategy objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background above, the current investment climate has one over-riding risk consideration, that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

14. **Risk Benchmarking** – A development in the revised Codes and the CLG consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements for Member reporting, although the application of these is more subjective in nature. <u>Additional background in the approach taken is attached at Annex A2</u>.

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

16. Security - The council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

    - 0.02% historic risk of default when compared to the whole portfolio.

    Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

17. Liquidity – In respect of this area the council seeks to maintain:

    - Bank overdraft – little used. Limits the same as external debt;
    - Liquid short term deposits of at least £0.5m available the next day;
    - Weighted Average Life benchmark is expected to be 21 days, with a maximum of 182 days.

18. Yield - Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate;
- Investments – External fund managers - returns 110% above 7 day compounded LIBID.

19. **Investment Counterparty Selection Criteria -** The primary principle governing the council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the council will ensure:
    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
    - 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.

20. The Strategic Director will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate from that which chooses Specified and Non-Specified investments as it selects which counterparties the council may use rather than defining what its investments are.

21. The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

22. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), and rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

23. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:
    - **Banks 1 - Good Credit Quality** – the council will only use banks which:
        i. Are UK banks; and/or
        ii. Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA

    And have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

i. **Short Term** - F1 P-1 A-1

ii. **Long Term** – A- A3 A-

iii. **Individual / Financial Strength** – C (Fitch / Moody's only)

iv. **Support** – 3 (Fitch only)

- **Banks 2 – Guaranteed Banks with suitable Sovereign Support** – In addition, the council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
  - (a) wholesale deposits in the bank are covered by a government guarantee;
  - (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poor's); and
  - (c) the council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
- **Banks 3 – Eligible Institutions** - the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.
- **Banks 4** – The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- **Bank Subsidiary and Treasury Operations** – the council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies** – the council will use Societies which:

  i. meet the ratings for banks outlined above, or are both:

  ii. Eligible Institutions; and

  iii. Have assets in excess of £500 million.
- **Money Market Funds** – AAA
- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

24. **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;
- Sector limits will be monitored regularly for appropriateness.

25. **Use of additional information other than credit ratings** – Additional requirements under the Code of Practice now require the council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market

information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

26. **Time and Monetary Limits applying to Investments** - The time and monetary limits for institutions on the council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£5m	3 yrs
Lower Limit Category	F1/A-	P-1/A3	A-1/A-	£5m	1 yrs
Unrated Limit Category	-	-	-	£3m	6 months
Other Institution Limits	-	-	-	£5m	3 yrs
Guaranteed Organisations	-	-	-	£5m	various

(The Upper Limit category will include banks and building societies. The Lower Limit category will normally be used for unrated subsidiaries and unrated building societies. The Other Institution Limit will be for other local authorities, the DMADF, Money Market Funds and Gilt and Supranational investments. These are all considered high quality names – although not always rated – and therefore will have the same limit as the Upper Category. Guaranteed institutions will need to be restricted to the terms of the guarantee.)

In exceptional circumstances short term variations to these limits will be allowed, subject to the written authority of the Strategic Director.

27. The proposed criteria for Specified and Non-Specified investments are shown in Annex A1 for approval.

28. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

29. The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the council's liquidity requirements are safeguarded. This will also be limited by the longer term investment limits.

30. **Economic Investment Considerations** - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid-2010. The council's investment decisions are based on comparisons between the rises priced into market rates against the council's and advisers own forecasts.

31. There is an operational difficulty arising from the current banking crisis. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

32. **The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members**

are asked to approve the base criteria above, under the exceptional current market conditions the Strategic Director may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

33. Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

34. Future council accounts will be required to disclose the impact of risks on the council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. [This table would also show the effect of interest rate changes on borrowing costs for authorities with debt.]

	2010/11 Estimated + 1%	2010/11 Estimated - 1%
Revenue Budget variance		
Investment income	+ £295,000	- £295,000

Treasury Management Prudential Indicators and Limits on Activity

35. There are four further treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to generate income. At this council, with no debt, these indicators apply only to investments. They are:

- Upper limits on variable interest rate exposure – With the level of operation at this council we have not felt the need to use period investments at variable interest rates. Currently an instant access bank deposit account is available for "overnight" investment. The interest rate is revised every week by the bank but we could move our funds at any time. The council also uses a Money Market Fund for instant access. The rate is notified daily and again the funds can be moved at any time.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing. As previously stated this does not apply here.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

These limits, which include cash held by the Fund Manager, are higher than the council's actual total funds because cash received during the year is invested until it is paid over to the Government or to precepting bodies.

36. The Council is asked to approve the following prudential indicators:

£m	2010/11	2011/12	2012/13
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • Debt only • Investments only	 nil £50 m	 nil £50 m	 nil £50 m
Limits on variable interest rates • Debt only • Investments only	 nil £10 m	 nil £10 m	 nil £10 m
Maturity structure of fixed interest rate borrowing 2010/11 – not applicable			
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£20 m	£20 m	£20 m

Performance Indicators

37. The Code of Practice on Treasury Management 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. Examples of performance indicators often used for the treasury function are:

- Investment returns above the 7 day LIBID rate (in-house and Fund Manager).
- Investment returns compared to similar local authority funds (FM only). Target is to be in the top quartile.
- Full investment of daily balances (in-house).
- Maintenance of a balanced portfolio.

The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers

38. The council uses Butlers as its treasury management consultants, in a joint agreement with South. 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;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service involving the three main credit rating agencies.

39. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the council. This service is subject to regular review.

Member and Officer Training

40. 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 offer training for Members and officers where required if suitable opportunities can be identified.

Treasury Management Practice (TMP) 1(5) – Credit and Counterparty Risk Management

The Office of the Deputy Prime Minister (now CLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. The CLG is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This council has adopted the Code and will apply its principles to all investment activity. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the council will use. These are high security (i.e. high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These are sterling investments of not more than one-year maturity, (or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes) and not defined as capital expenditure (making an investment in a company). These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. (AAA or equivalent).

5. A body that is considered of a high credit quality (such as a bank or building society, although non-rated subsidiaries and low or non-rated building societies will need to be non-specified investments). This covers bodies with a minimum short term rating of F1+ (Fitch, or the equivalent).

Within these criteria, and in accordance with the Code, the council has additional measures to set the time and amount of monies which will be invested in any one body. These limits are £5 million and 3 years.

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Bonds and gilt-edged securities are included for the benefit of the council's Fund Manager. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit £ or %**
a	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	Any one name up to 20% of the value of the fund
b	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. Average duration of investments for funds should not exceed 5 years.	Maximum proportion of fund invested for longer than 1 year not to exceed 60%
c	**The Council's own bank** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	
d	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which are Eligible Institutions and have a minimum asset size of £1 billion restricted to 1 year, and minimum asset size £500 million restricted to 6 months.	£3 million
e	Any **bank or building society** that has a minimum long term credit rating of AA- or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	50%

f	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company, and a maximum period of investment of 6 months	£3 million
g	**Share capital or loan capital*** in a body corporate – The use of these instruments is deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. There is a higher risk of loss with these types of instruments.	
h	**Pooled property or bond funds*** – The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	

*In respect of categories g and h, these will only be considered after obtaining external advice and subsequent Member approval.

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

Use of External Fund Managers – It is the Council's policy to use an external fund manager for part of its investment portfolio. The fund manager will use both specified and non-specified investment categories, and is required to keep to the council's investment strategy. The council receives monthly activity reports. Butlers report on the performance of the manager quarterly and the annual performance is reported to Council in a report on the performance of cash investments after the year-end.

Security, Liquidity and Yield Benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service - A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks.

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

Yield – The local benchmark currently used to assess investment performance for the in-house team and the fund manager is the level of returns above 7 day LIBID. (London Interbank BID rate. The interest rate a bank will pay to borrow from another bank.)

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

As is the case with much of this report, the CLG and CIPFA guidance is aimed at a relatively large authority with borrowing and investments spread over a number of years. Worked examples from Butlers assume investments of £50 million over 5 years.

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

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

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

- WAL benchmark is expected to be 21 days, with a maximum of 182 days.

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 credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2007.

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

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

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

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

- 0.02% historic risk of default when compared to the whole portfolio. (i.e. equivalent to £200 on £1 million)

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

Treasury Management Clauses to form part of Financial Regulations

1. This Council will create and maintain, as a basis for effective treasury management:
    - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
    - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

2. The Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.

3. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Strategic Director and Chief Finance officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The organisation nominates Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Appendix B

Vale of White Horse District Council

VALE OF WHITE HORSE DISTRICT COUNCIL

CAPITAL STRATEGY 2010/11 – 2014/15

PART ONE - BACKGROUND

Capital Strategy

1. In 2003 the Government issued guidance on the value of capital strategies and asset management plans with the advent of the single capital pot for allocation of support for local authority capital spending and the introduction of the ‘prudential code for capital’. They further commented that:

   “The capital strategy will become an essential part of the annual budget setting process. A robust capital programme will require the bringing together of strategic planning for the local authority, asset management planning with an assessment of the state of the authority’s assets, option appraisal, identification of investment needs including opportunities and priorities and setting all this in the context of available capital resources.”

2. The purpose of the capital strategy is to provide the overall policy framework for capital investment. It does so by bringing together the requirements of the council’s strategic objectives and the constraints of its medium term financial plan and within the parameters set by those it determines how capital schemes can be progressed from initial idea through to conclusion.

3. The capital strategy therefore sets out how the council:

   - Develops its capital expenditure plan in a way that supports its strategic objectives and reflects the views of the community.
   - Ensure options for expenditure are developed and appraised.
   - Evaluates, monitors and reports on capital proposals, activity, progress and resources.
   - Manages and monitors its expenditure.
   - Reviews its existing assets to ensure optimum usage and management.
   - Seeks to maximise funding from third parties and involve partnership development.
   - Use planning agreements to secure capital and capital investment within the district.

The council’s strategic objectives

4. The council’s Corporate Plan 2009-12 forms the link between the vision and the services that the Council Tax payers of the district tell us they want. It is expressed as six strategic objectives each associated with a set of corporate priorities:

   - Meeting People’s need for housing
   - Supporting a vibrant local economy
   - Managing our business effectively
   - Rising to the challenge of climate change

- Helping to maintain a safe Vale
- Keeping the Vale a clean place to live.

5. The Vale of White Horse District Council will use the community planning and consultation process to establish corporate priorities which are translated into requirements for capital investment through service plans and corporate strategies.

PART 2 – CAPITAL STRATEGY FOR VALE OF WHITE HORSE DISTRICT COUNCIL

Background

6. Following the Large Scale Voluntary Transfer (LSVT) of the Vale's housing stock to the newly created Vale Housing Association in February 1995 the council was in receipt of £54m. £17m of which was used to repay outstanding debt leaving the authority with debt-free status and £37m with which to finance it's spending in subsequent years.

7. The capital value of the council's investment property portfolio at the end of 2008/09 was £28m following impairments in value during the year of £10m as a consequence of the downturn in property values. The pool of available capital receipts at the end of 2008/09 was £11m.

Seeking the views of the community

8. The council will use the community planning and consultation process to establish corporate priorities which are translated into requirements for capital investment through service plans and corporate strategies.

9. The council's strategic priorities have been validated in user forums across the district. Feedback from these meetings has been incorporated into the plan.

10. The council approved a Sustainable Community Strategy in November 2008 called "Working together for a better Vale". It was prepared by the Vale Partnership, which brings together representatives from the public, private and voluntary sectors in the Vale. This strategy is a commitment by the council and its partners to work together with available resources to provide services that will help to improve quality of life and maintain communities where people want to live and work, now and in the future. Some of the issues will be tackled through policies and proposals in the Local Development Framework (LDF). This sets out the long term vision and key objectives for the district up to 2026. Major new sites for housing, employment and retail development are identified in the plan as is the infrastructure needed to support them.

11. The council also contributes to the Oxfordshire Local Area Agreement 2008-11. This is a three year agreement between the Government and a wide range of key partners across Oxfordshire. This contributes to identifying common capital investment needs for the district.

12. There is an integrated service and financial planning process which is designed to ensure that service developments, including new capital schemes, give rise to budget changes which are considered by the Executive during October and November and published for public consultation in December.

Capital programme – development and project appraisal

13. Capital investment needs are tested against a range of criteria and evaluation processes and included into the capital programme on the basis that they meet those criteria and funding is available.

14. Proposed capital schemes are introduced through an appraisal process where a detailed breakdown is completed which considers:

- The extent to which the scheme meets the council's strategic objectives.
- Whether there is a statutory need to carry out the scheme.
- How it links with other schemes.
- The benefits to the Vale – by geographical area, demographic group, job creation.
- Alternatives or options.
- Key indicators for measuring success.
- Cost implications of not carrying out the scheme.
- Resource implications – revenue, capital, staffing premises, transport, supplies & services, contractor costs and income consequences.
- External funding sources
- Partnerships
- VAT implications.

15. Each scheme must be endorsed by the relevant portfolio holder and is accepted or rejected at an Executive meeting. The over-arching funding position is considered in detail by the councillor with responsibility for finance.

16. In November/December revised spending proposals on existing schemes are considered along with any proposed new schemes and the level of capital investment that the council considers affordable.

17. The council maintains a three tier capital programme, agreed at the budget-setting meeting in February and covering five years:-

- The current year committed programme consists of schemes that are fully funded and are underway.
- The earmarked programme consists of schemes where total cost and funding has been agreed and the project is due to commence within the next year.
- The "proposals" element consists of projects that are required to meet service and corporate objectives but have been deferred beyond the next year and may be brought back to be considered with new proposals in the next budget round.

Evaluation, Monitoring and Reporting

18. Reports on capital proposals, activity, progress and resources will be made regularly to appropriate Member bodies and will be available to the public and media.

19. Capital projects are developed and proposed to Executive for their consideration and inclusion in the budget for the following financial year. Public consultation on the proposed

capital schemes and revenue budget takes place in December/January. The project and its funding is approved by the full Council at the budget setting meeting in February.

20. All schemes are evaluated for revenue consequences and outputs in terms of achievement of service objectives. The capital programme is the responsibility of the Executive once it has been approved by Council. The Executive receive an annual report in August showing the expenditure against budget and summarising all in-year changes to the capital programme and funding of the programme. The Council receives a report on prudential indicators under the new Capital Finance regime at the annual budget-setting meeting.

Capital Resource Generation

21. Councillors have identified a level below which the total of capital receipts should not fall. On 20th May 2009 the Council agreed that the Property Investment Policy be amended so that the maximum percentage of the investment portfolio in property be 80% of the total (up from 75%) and the cash funds invested (i.e. not held for cash flow purposes) should not fall below £5 million (down from £10 million). This will reduce the level of usable capital receipt held by the council for capital funding as the investment portfolio is increased, which at the end of 2008/09 was £11.1m.

22. In 2004/05 the Council resolved to move to a position where investment and property income used to fund one-off service provision and the capital programme. However, to date it has not been able to take these funding streams out of the revenue budget and falls in government funding over the medium term may continue to prevent this objective from being realised. The consequence of not being able to do this is that the level of usable capital receipt available to the council falls year on year.

23. In order to maximise the return from its reserves the council has a Property Investment Policy which states: the maximum percentage of its investment portfolio to be invested in property (80% as at 2009/10; what type of property to invest in; where the property should be located; and what level of financial return should be sought.

24. Other sources of capital finance pursued by the council are:

- Capital receipts generated from asset disposals;
- Bidding for external resources;
- Partnership Funding for projects;
- Planning agreements.

Alternatives to capital funding may be considered but only used in a minor way so far are:

- Revenue contribution to capital expenditure
- Leasing

25. Due to the pressure on the revenue budget there has been limited use of the power to use revenue contributions to fund capital projects. Once the level of available capital funding reaches the limit of £5m it will be necessary either, to start revenue funding of capital, both directly and through borrowing which will put increased pressure on the revenue budget, or, to reconsider the £5m limit.

26. Leasing will be considered in appropriate cases and used to supplement capital resource availability where it can be shown to provide the overall optimum solution and revenue accounts can support the costs. The council's financial position generally means that leasing is not a cost-effective option but it will be considered where appropriate. The council has a few operational leases for acquisition of plant and equipment and a very small number of property leases.

Capital programme and capital resources

28. The capital programme for 2008/09 to 2011/12 was approved by Council on 25 February 2009. This is summarised in table one below:

Table one: Capital programme 2008/09 to 2011/12

		Revised 2008/09	Committed 2009/10	Proposed	
		2008/09	2009/10	2010/11	2011/12
		£	£	£	£
Capital programme		2,369	2,433	3,730	1,130
Capital funding:					
Grant		(805)	(560)	(600)	(510)
Partner contribution		(18)	0	0	0
Developer contribution		(133)	(48)	0	0
Revenue contribution		(33)	0	0	0
Capital receipt		(1,379)	(1,825)	(3,130)	(620)

29. Capital receipts will fall to £5.6m by the end of 2011/12 (£11.1m as at 1st April 2009) as they are used to fund the capital programme. This doesn't include any additions to the capital programme that are being proposed as a part of the budget setting process for 2010/11.

Review of assets

30. The council will actively review its existing operational assets to ensure optimum usage and continue to seek to dispose of surplus or non functional assets to release capital. Asset utilisation by individual services will be tested under service review and where appropriate, inefficient or surplus property released. The council will take advice from its strategic property advisors as required.

31. The council has some investment/non-operational land and property holdings. The majority of these properties and land are subject to commercial tenancies and generate income which is used to fund the council's revenue services. Properties that do not generate reasonable returns, together with undeveloped land, have been progressively disposed of to generate capital receipt. In many cases this activity has facilitated achievement of the council's economic development and town centre development aspirations in addition to producing usable receipts for progressing other projects.

32. In using capital to purchase new investment assets the Asset Management Group, comprising officers and members will identify an appropriate yield on an investment below which it is deemed not to be an appropriate use of the council's capital reserve. This will vary according to the type of investment property and the circumstances of the market.

33. The asset management group has been meeting throughout 2009/10 with the mandate to review the council's assets and report. The council has identified in its medium term plan savings from the significant reduction in the revenue costs of Tilsley Park, Abingdon Guildhall, and Wantage Civic Hall of £125k in 2010/11 with continuing ongoing savings of £250k from 2011/12. Proposals are being worked on to achieve these ongoing savings and are currently subject to consultation and negotiation. Any adjustment to these proposals will have a revenue impact on the council's budget.

Maximise funding from external sources

34. The council will seek to access appropriate funding available from third parties and will assist organisations within the district along similar paths.

35. Wherever possible, the council has and will continue to seek access to external resources for capital projects. We have been successful in obtaining waste recycling environmental grant, lottery and partnership funding for a range of leisure based projects.

36. As part of its economic development service the council has assisted parish councils and other community and voluntary groups in obtaining significant awards of external funding across the district. The council has earmarked some of its capital reserves to award grants to organisations in the district providing up to 50% of funding for capital community projects matching these external awards. The council's ability to maintain this support into the future will be hampered as the level of available capital receipts fall, as explained in paragraphs 21 – 26 above.

Partnership development

37. The council will consider partnership development with both public and private sector partners and seek optimum use of assets by shared arrangements where appropriate. The council seeks to promote the development and provision of public facilities through partnership funding. Past projects include joint-use leisure facilities on secondary school and university sites and the council is open to discussing other similar opportunities.

38. The council may consider awarding capital grants and capital loans to third parties as a part of its capital programme if the award of a grant/loan meets the council's strategic objectives, is income generating or cost reducing in a way which can be clearly evidenced.

39. The Public Finance Initiative (PFI) is generally not suitable as a route for the type and level of project considered by the authority but PFI and Private/Public Partnership would be considered where appropriate.

Planning Agreements

40. Where appropriate planning agreements will be used to secure capital and / or capital investment within the district.

41. The council has frequently secured commuted sum contributions and contributions to the provision of facilities under planning obligation where it can demonstrate a need. Adoption of the Local Plan and other initiatives such as the Abingdon Integrated Transport Strategy require infrastructure provision. The council is keen to facilitate this development and will seek to work in partnership with other public sector bodies to secure investment to progress development and provide community facilities.

42. The district Housing Needs Survey supports provision of a minimum of 40% of affordable housing within new development. The council regularly reviews the level of provision which may be constrained by funding availability for registered social landlords at national and local level.

43. The council will continue to make appropriate use of its planning powers throughout the district to secure appropriate developer involvement and contribution.

Conclusion

44. The council will continue to prioritise its capital spending in line with its corporate priorities, recognising that a commitment to partnership working remains a significant part in the council's overall approach. New and innovative ways of increasing available capital funding will continue to be explored in the light of the prudential code for capital finance. The council will review as often as required, at least 3 yearly, its approach to capital expenditure having regard to outcomes of value for money reviews and progress on implementation of its priorities.